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U.S. HOUSE OF REPRESENTATIVES

REPORT

ON

TRADE MISSION TO JAPAN AND THE REPUBLIC OF KOREA

AUGUST 4, 1983

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LETTER OF TRANSMITTAL

COMMITTEE ON WAYS AND MEANS,
SUBCOMMITTEE ON TRADE,
Washington, D.C., August 4, 1983.

Hon. DAN ROSTENKOWSKI,
Chairman, Committee on Ways and Means, U.S. House of Representatives, Washington, D.C.

DEAR MR. CHAIRMAN: Enclosed is the report of the March 25 to April 4, 1983, Trade Mission to Japan and Korea by Members of the Committee on Ways and Means. The report is divided into separate discussions of Japan and Korea.

JAPAN

Our purpose in visiting Japan was related directly to the growing controversy in the United States surrounding our bilateral relationship with Japan.

To say that U.S.-Japan trade relations have become controversial in the United States would be a significant understatement. Feelings of frustration over our current bilateral trade imbalance have continued to build over the last several years with no relief in sight. To put a complex problem in simple terms, it is a sense of unfairness that is the root of that frustration. There is a strong and growing feeling in the United States that while we have accorded the Japanese open access to our markets (a situation they have very successfully taken commercial advantage of), U.S. exporters do not enjoy anywhere near the same type of access to the Japanese market. With that feeling has grown a sense that the United States should eliminate this unfair situation and "even the score" by limiting Japan's access to the U.S. market in areas where Japanese products have been particularly successful. This feeling has become increasingly sensitive politically in the United States as unemployment has increased and trade has become a more important component of overall economic activity in the United States.

This increased political awareness and sensitivity throughout the United States with regard to U.S.-Japan relations has resulted in the introduction of a variety of legislative proposals aimed at redressing perceived problems in our bilateral trading relationship. Legislation aimed at reducing Japan's access to the U.S. market were numerous in the 97th Congress. The 98th Congress has shown no signs of being different. A notable example that passed the House of Representatives in the last Congress and has received substantial support this year is the so-called domestic content bill, which would require that a set average percentage of domestic parts and labor be embodied in automobiles sold in the United States. There are a variety of other bills currently pending in both the House and Senate aimed at achieving "reciprocity" with the Japanese.

Because of the controversy surrounding the U.S.-Japan trade relationship, Members of the Committee on Ways and Means visited Japan this spring with two purposes in mind. The first was essentially fact-finding—to gain a better understanding of the conditions surrounding our bilateral trading relationship with Japan. The knowledge of precisely the status of current trade disputes is essential to properly consider the variety of legislative proposals that have been or will be introduced during the 98th Congress.

The second goal was educational—not for ourselves, but for our Japanese colleagues. It was felt that face-to-face discussions with Japanese government and business leaders were essential in order to explain, from the viewpoint of the U.S. Congress, that our trading relationship has become a contentious political issue in the United States and that increased access to the Japanese market for U.S. goods and services is necessary if good commercial and political relations between our two countries are to be maintained.

Members of the Delegation stressed several primary points to Japanese leaders during our discussions. The first focused on trade effects of Japan's industrial policy measures. In recent months, it has come to our attention that Japan's policies aimed at targeting growth industries and directing the restructuring of declining industries could be having adverse trade effects for Japan's trading partners. U.S. businessmen have indicated that their lack of access to the Japanese market, as well as to the Japanese financial and commercial system, are a direct result of Japanese government targeting policies in certain industries.

Our Members indicated that we in no way desire to interfere in Japan's choice of industrial policy tools. However, if those tools have the effect of providing sophisticated forms of subsidies that distort trade flows and injure U.S. industries, the United States will consider such actions to be in violation of the General Agreement on Tariffs and Trade (GATT). Members reported that the Subcommittee on Trade would be carefully reviewing our existing trade laws, starting with our countervailing and antidumping laws, and considering any changes that would be necessary to adequately counter targeting policies that violate accepted international trading rules.

A second area of considerable concern was that of the yen/dollar exchange rate. During the last year, the U.S. dollar has been particularly strong relative to all major currencies. The exchange rate relationship between the yen and dollar has possibly been the most controversial due to factors related to other frictions in our trading relationship with Japan. U.S. businessmen have found themselves at a competitive disadvantage vis-a-vis their Japanese competitors at home, in Japan, and in third country markets due to the imbalance in the yen/dollar relationship.

Members of the Delegation discussed two ways to address the currency imbalance. First, they suggested that Japanese and U.S. officials, as well as other leaders of the industrialized world, initiate an international discussion of current exchange rates and the international monetary system, beginning at the Williamsburg Economic Summit. They indicated their belief that until an international discussion is initiated in this area, our existing trade problems will not only continue, but could be exacerbated by continued instability in exchange rate relationships.

Second, Members focused on an area that they feel could be changed to produce greater long-term balance in the yen/dollar relationship. That is Japan's capital market and the international position of the yen. While Japan's capital market is clearly more open today than it has ever been, we feel that further liberalization and resultant internationalization of the yen would act to permit a more efficient allocation of global financial resources, give U.S. firms competitive access to yen financing, and permit fairer and increased global competition. Members of the Delegation strongly urged Japan's leaders to fully open their country's financial system to participation by foreigners.

While the issues of industrial policy and exchange rates dominated our conversations in Japan, many other outstanding trade issues were also discussed. For instance, the Delegation had the opportunity to discuss the results of a review of Japan's standards and certification laws which had been initiated as part of a trade liberalization package announced by the Government of Japan in January 1983. The announcement on March 25, 1983, that the amendment of 17 laws would be proposed to the Diet in order to ensure that certification systems would be applied in a nondiscriminatory manner to domestic and foreign products and suppliers alike, was met with considerable pleasure in the United States and among our Members.

The Delegation was disappointed, however, that the new changes did not encompass a move by Japan to a system of self-certification for automobile manufacturers exporting to Japan, similar to the U.S. system. Although the Delegation pointed out that a self-certification system would not diminish the integrity of Japanese safety standards or relieve U.S. auto manufacturers of the burden of meeting those standards, Japanese officials responded that the adoption of a self-certification system by their government was highly unlikely. Our Members emphasized that action on this issue would be an important way to relieve the perception of unfairness that now exists in the United States regarding bilateral auto trade.

The Delegation did, of course, discuss many other issues that are outstanding in our bilateral trading relations with Japan. They are discussed fully in our report.

REPUBLIC OF KOREA

The Delegation's visit to Korea reflected the growing importance of the trade relationship between our two countries. In the past, security, political stability, and mutual defense efforts have been issues that have dominated our bilateral relationship, but the growth of the Korean economy in recent years has brought with it a significantly increased trading relationship with the United States. Korea is currently our ninth largest trading partner, our sixth largest export market, and our third largest market for agricultural exports. Two-way trade totalled $11.2 billion in 1982.

The purpose of the Trade Mission was to become more familiar with the economy of Korea and opportunities for U.S. businessmen, as well as to discuss bilateral trade issues which are outstanding between our two nations.

One topic of discussion was the U.S. Generalized System of Preferences (GSP) which will expire in January of 1985. In 1982, Korea exported $1.089 billion of goods to the United States duty-free. This accounted for nearly 13 percent of all imports which entered the U.S. under GSP that year. Korean officials were naturally anxious to hear of the prospects for continuation of the GSP program past its current 1985 expiration date.

Because of the potential of increased U.S. sales to the growing Korean market, Members of the Delegation were anxious to discuss trade barriers that are facing U.S. exporters to Korea. For instance, Korea maintains extremely restrictive import licensing practices. The restrictions affect both agricultural and industrial goods, preventing U.S. businesses, trading companies, and service industries from competing on an equal basis with their Korean counterparts. Members of the Delegation strongly urged Korean officials to respond positively to specific requests for liberalization of Korea's import licensing regime.

Another area of considerable concern to our Members was that Korea would appear to be following Japan's lead with respect to industrial development. As is often the case in Japan, Korea has begun to target industries with export potential for favored government incentives and to protect these industries in the home market while they become fully competitive in export markets such as the United States. Members repeatedly expressed concern that, in following Japan's example, Korea would be contributing to the pressures for protectionist solutions to unfair targeting practices and could be adversely affected by such responses. They encouraged Korea to be more active in the GATT in supporting multilateral discipline over trade distorting practices, including targeting, and to refrain from such practices themselves. As they did in Japan, Members also explained their intention to review U.S. trade laws to ensure that they are adequate to protect U.S. businesses against unfair trading practices, including targeting.

We hope that this report will be of use to you and the rest of the Committee in the months to come.

Sincerely,

SAM M. GIBBONS, *Chairman.*

Enclosure.

CONTENTS

Page

- Letter of transmittal III
- Members of the delegation IX
- List of meetings, plant tours, and other visits IX

- I. Japan:

  - A. Bilateral trade statistics 1
  - B. Access to Japan's market for U.S. exports 1
    - 1. Recent progress made by Japan 1
      - a. January 30, 1982 package 2
      - b. May 27, 1982 package 3
      - c. Nakasone package 4
        - (1) Tariff reductions 4
        - (2) Review of national certification systems 5
        - (3) Office of the Trade Ombudsman 6
        - (4) Tobacco products marketing and distribution 6
        - (5) Government Procurement—Nippon Telegraph and Telephone Public Corporation (NTT) 7
        - (6) Relaxation of import restrictions on agricultural imports 7
    - 2. Outstanding trade issues 7
      - a. Nippon Telegraph and Telephone (NTT) 7
      - b. High technology trade 10
      - c. Investment 11
      - d. Automobiles 12
      - e. Manufactured tobacco products 20
      - f. Tariffs 21
      - g. Agriculture 22
  - C. Japan's industrial policy—targeting and implications for international trade 23
    - 1. Japan's industrial policies for emerging and declining industries 24
    - 2. Examples of targeted industries 26
      - a. Emerging industries 26
      - b. Declining industries 26
  - D. Plant tours 27
      - a. Texas Instruments 27
      - b. Nissan Motor Co., Ltd 27
      - c. Nippon Kokan 29
      - d. Mitsubishi Heavy Industries 32
  - E. Exchange rates 32
    - 1. The yen/dollar relationship 32
    - 2. Ways to address the currency imbalance 33
      - a. Internationally 33
      - b. Liberalization of Japan's capital market and internationalization of the yen 34

- II. Republic of Korea:

  - A. United States-Korea trade 36
  - B. Bilateral relationship 37
    - 1. Investment and business practices 38
    - 2. Licensing 39
    - 3. Computer decree 40
    - 4. Generalized system of preferences (GSP) 41
    - 5. Korean industrial policy 42
  - C. United States-Republic of Korea security arrangements 42
- III. Hong Kong 44

APPENDIXES

Page

Appendix A: Transcript of press conference by Members of the House Committee on Ways and Means, U.S. Embassy Auditorium, Tokyo, March 30, 1983 45

Appendix B: Transcript of press conference by members of the House Committee on Ways and Means, Nishitetsu Grand Hotel, Fukuoka, Japan, April 1, 1983 50

Appendix C: "Congress May Introduce Bill to Punish Industrial 'Targeting'," The Japan Times, March 31, 1983, page 1 53

Appendix D: Selected articles from the Japanese language press 54

1. Asahi Shimbun, March 30, 1983, page 9 54
2. Mainichi Shimbun, March 30, 1983, page 9 54
3. Nihon Keizai Shimbun, March 30, 1983, page 2 55
4. Yomiuri Shimbun, March 30, 1983, page 7 55
5. Asahi Shimbun, April 2, 1983, page 8 56

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Hon. Frank J. Guarini
Hon. Donald J. Pease
Hon. Barber B. Conable, Jr.
Hon. Bill Frenzel
Hon. Carroll A. Campbell, Jr.

STAFF

Majority: Ann F. DuLaney, Franklin C. Phifer, Jr., Rufus H. Yerxa.

Minority: Thelma J. Askey.

EXECUTIVE BRANCH

Joseph A. Massey, Director for Japan, Office of the U.S. Trade Representative.

MEETINGS

TOKYO, JAPAN

1. His Excellency Yasuhiro Nakasone, Prime Minister of Japan.
2. The Honorable Masaharu Gotoda, Chief Cabinet Secretary.
3. The Honorable Shintaro Abe, Minister of Foreign Affairs.
4. The Honorable Noboru Takeshita, Minister of Finance.
5. The Honorable Sadanori Yamanaka, Minister of International Trade and Industry.
6. The Honorable Masumi Esaki, Member, House of Representatives.
7. American Chamber of Commerce in Japan.
8. Japan Automobile Manufacturers Association.
9. Electronic Industries Association of Japan.
10. Dr. Hisashi Shinto, President, Nippon Telegraph & Telephone Corp.
11. Keidanren (Federation of Economic Organizations).
12. The Honorable Michael J. Mansfield, U.S. Ambassador to Japan, and U.S. Embassy personnel.

SEOUL, REPUBLIC OF KOREA

1. His Excellency Chun, Doo Hwan, President, Republic of Korea.
2. The Honorable Lee, Bum Suk, Minister of Foreign Affairs.
3. The Honorable Kim, Dong Whie, Minister of Commerce and Industry.
4. The Honorable Kang, Kyong-Shik, Minister of Finance.
5. The Honorable Jung, Nae-Hiuk, Speaker of the National Assembly.

6. American Chamber of Commerce in Korea.
7. The Honorable Richard L. Walker, U.S. Ambassador to Korea, and U.S. Embassy personnel.

PLANT TOURS AND OTHER VISITS IN JAPAN

1. Nippon Kokan K.K. (Steel), Keihin Works, Ohgishima, Japan.
2. Texas Instruments, Hiji, Kyushu, Japan.
3. Nissan Truck/Automobile Assembly Plant, Kanda, Kyushu, Japan.
4. Mitsubishi Heavy Industries, Koyagi Shipyard, Nagasaki, Kyushu, Japan.
5. U.S. Naval Base, Sasebo, Japan.

REPORT ON TRADE MISSION TO JAPAN AND THE REPUBLIC OF KOREA

I. JAPAN

A. Bilateral Trade Statistics

In 1982, the United States recorded a merchandise trade deficit with Japan of $16.7 billion. That deficit was only 5 percent higher than the $16.0 billion deficit which the United States registered in 1981, but followed a 59 percent increase from 1980 and 1981. The 1982 deficit reflected U.S. imports from Japan of $37.0 billion and exports to Japan of $20.3 billion.

While our aggregate deficit was itself quite high, the source of U.S. frustration over our trading relationship is best illustrated through sectoral performance. On a sector basis, the U.S. consistently experiences large deficits with Japan in the machinery and equipment sector ($21.3 billion in 1982) and in the minerals and metals sector ($4.3 billion in 1982). Products in those sectors include machine tools, semiconductors, motor vehicles and parts, aircraft, and steel—all manufactured products, with some in the forefront of new technologies. In contrast to deficits, the United States has consistently had large surpluses with Japan in the agricultural sector ($5.4 billion in 1982) and the chemicals sector ($3.0 billion in 1982). U.S. exports in these sectors include grains, soybeans, meat and fish, coal, uranium, and various chemical compounds.

Even a glance at these relationships points up a source of dissatisfaction in the U.S. with our bilateral trading relationship with Japan. That is, while the United States remains a world leader in many areas of manufacturing, particularly in high technology products, we are singularly unsuccessful in selling significantly more to Japan than raw materials. In some instances, Japan is quite literally the sole market worldwide in which U.S. exporters have been unable to sell their products successfully. Many in the U.S. feel that these sectoral trends are quite disturbing and in fact are indicative of a problem of inequitable access to the Japanese market for U.S. exporters which should be corrected.

B. Access To Japan's Market for U.S. Exports

1. Recent Progress Made by Japan

Trade problems involving specific products remain numerous between the United States and Japan. However, without question substantial progress has been made in opening Japan's market to foreign products in the past few years. Three major packages of liberalizing measures have been announced since 1982.

A. JANUARY 30, 1982 PACKAGE

On December 16, 1981, the Japanese Ministerial Conference for Economic Measures decided, under considerable pressure from Japan's trading partners to improve access or face protectionist actions, to develop a package of specific measures for the improvement of foreign access to the Japanese market. The Liberal Democratic Party (LDP) Special Committee on International Economic Measures was formed under the chairmanship of Mr. Masumi Esaki to develop the package.

On January 30, 1982, the Government of Japan formally announced a series of measures aimed at increasing access of foreign goods to the Japanese market. The package consisted of first, a list of 99 specific areas that had been in dispute between Japan and her trading partners, along with Japanese actions on each. A second portion of the package was an announcement by the Gov-

TABLE 1.— U.S. EXPORTS OF DOMESTIC MERCHANDISE, IMPORTS FOR CONSUMPTION, AND MERCHANDISE TRADE BALANCE, BY MAJOR COMMODITY SECTORS, 1980, 1981, AND 1982 (JAPAN)

[In thousands of dollars]

Item	1980	1981	1982
U.S. exports of domestic merchandise:			
Agricultural, animal, and vegetable products	6,036,170	6,696,964	5,717,126
Forest products	2,584,615	1,901,365	1,869,305
Textiles and apparel	726,925	724,492	684,874
Footwear	16,461	20,273	22,050
Petroleum, natural gas, and related products	294,681	480,755	777,070
Chemicals and related products	3,507,136	4,082,646	4,351,832
Minerals and metals	2,383,402	1,763,425	1,550,247
Machinery and equipment	3,668,088	4,265,776	4,013,570
Miscellaneous manufactures	1,181,821	1,315,070	1,308,938
Total	20,399,305	21,250,771	20,295,017
U.S. imports for consumption:			
Agricultural, animal, and vegetable products	303,336	311,046	324,480
Forest products	181,045	200,699	182,992
Textiles and apparel	567,652	780,841	793,461
Footwear	22,259	24,608	26,848
Petroleum, natural gas, and related products	17,878	5,250	14,113
Chemicals and related products	1,145,579	1,491,047	1,398,984
Minerals and metals	5,145,570	6,026,007	5,808,850
Machinery and equipment	20,411,587	25,111,732	25,322,900
Miscellaneous manufactures	2,618,878	3,265,445	3,172,978
Total	30,413,787	37,216,679	37,045,610
U.S. merchandise trade balance:			
Agricultural, animal, and vegetable products	5,732,834	6,385,918	5,392,646
Forest products	2,403,570	1,700,665	1,686,313
Textiles and apparel	159,272	−56,348	−108,587
Footwear	−5,797	−4,334	−4,797
Petroleum, natural gas, and related products	276,803	475,504	762,956
Chemicals and related products	2,361,557	2,591,598	2,952,848
Minerals and metals	−2,762,168	−4,262,581	−4,258,603
Machinery and equipment	−16,743,498	−20,845,956	−21,309,330
Miscellaneous manufactures	−1,437,056	−1,950,374	−1,864,039
Total	−10,014,482	−15,965,908	−16,750,593

ernment of Japan of its intention to establish a forum, the Office of Trade Ombudsman (OTO), for ensuring prompt settlement of future foreign complaints related to the openness of the Japanese market. The OTO was established with the Deputy Chief Cabinet Secretary as its head and staffed by the Vice Ministers of the ministries and agencies concerned.

Of the 99 nontariff barriers which foreign governments had asked Japan to liberalize, 67 were scheduled for elimination or significant reduction in the package. Nine additional items were listed as being subject to further study, and the remaining 23 items were either "based upon misunderstanding" or items to remain unchanged.

The package itself was welcomed by the United States as a significant measure, but at the same time caused considerable disappointment. While some significant changes were announced in the standards and customs areas, there were many areas that were not addressed or were listed in the category to remain unchanged. Further, as time passed, implementation did not prove to be entirely satisfactory. For example, the Office of Trade Ombudsman turned out in practice not to be as effective in solving trade problems as had been hoped—or planned.

B. MAY 27, 1982 PACKAGE

Pressure on Japan by her trading partners continued largely unabated following announcement of the January package. On May 27, 1982, on the eve of the Versailles Economic Summit, Japan announced a second series of measures aimed at improving access of foreign goods to the Japanese market—and presumably also at improving Japan's position at the Summit meeting.

The measures taken in May covered a broad range of products and addressed both tariff and nontariff barriers. In addition to the individual measures taken, then-Prime Minister Suzuki issued a statement appealing to the Japanese people to welcome foreign goods and investments.

In the area of tariffs, the package announced 96 items for which duties would be eliminated and 119 items which would be subject to duty reductions—in most cases to the final rates negotiated during the Multilateral Trade Negotiations (MTN). Additional measures to eliminate nontariff barriers covered a broad range of products and areas. Measures included were:

1. Further improvement in customs procedures.
2. Creation of greater transparency in the development of product standards through allowance of foreign participation in the formulation process.
3. Enlargement of import quotas on herring, pork, molasses and canned pineapple.
4. Permission by fiscal year 1985 for all tobacco retailers in Japan to market imported products.
5. Active encouragement by the Government of Japan for utilization of its foreign currency lending scheme for emergency imports.
6. Efforts to reform complicated business practices in Japan and the distribution system, including consultations with foreign busi-

nessmen and registering business consultants to assist foreign exporters.

7. Liberalization of trade in services, including support for work in the General Agreement on Tariffs and Trade (GATT) on services; maintenance of national treatment and establishment of "information windows" in the banking, insurance and securities sectors; welcoming of foreign direct investment in Japan, including facilitating foreign borrowing in the Japanese financial market; relaxation of restrictions on the use of telecommunications networks for data processing; and expediting negotiations regarding entry by foreign lawyers into Japan.

8. Encouragement of bilateral and multilateral cooperation in the area of high technology.

The Prime Minister's statement to the Japanese people was probably the most significant component of the May package. It was an unprecedented dramatic action for a Japanese leader. The tariff reductions were, in some cases, of significance to U.S. exporters, as well. For example, the elimination of duties on machine tools and tariff reductions on photographic film, nuclear reactors, and computers were all welcomed in the United States. In the area of nontariff barriers, improved customs procedures, increased transparency in formulation of standards, and opening of the Japanese financial market to foreigners were measures of significant potential value to U.S. exporters. As in the previous package, though, there were areas where desired concessions were notably absent. Obvious examples were in the agriculture sector where there were no significant concessions. There was also considerable disappointment in the U.S. that no changes were made in customs inspection procedures for automobiles.

U.S. efforts to follow up Japan's implementation of this second package were particularly diligent. Following Japan's announcement, the U.S. submitted 23 pages of questions regarding the measures it contained, seeking clarification regarding Japan's true intent where wording was ambiguous. Further, it was decided that U.S. trade officials would visit Japan every 4–6 weeks to monitor implementation of the liberalization measures.

C. NAKASONE PACKAGE

Tensions over U.S.-Japan trade relations remained at high levels in the second half of 1982. In November, the Office of the U.S. Trade Representative issued a lengthy list of remaining barriers to the Japanese market.[1] In December, the House of Representatives passed the so-called domestic content bill. Many Members who voted for the bill did so by their own description "to send a message" to Japan.[2]

(1) *Tariff reductions.*—On December 24, 1982, the Customs Tariff Council of Japan approved a set of tariff reductions at its annual meeting. The reductions, which required subsequent approval by the Japanese Diet, consisted mainly of items announced the previ-

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[1] "Japanese Barriers to U.S. Trade and Recent Japanese Goverment Trade Initiatives," Office of the U.S. Trade Representative, November 1982.

[2] *Congressional Record,* vol. 128, Nos. 144, 145, 148, pp. H9243–H9257 (Dec. 9, 1982), H9383–H9438 (Dec. 10, 1982), H9856–H9909 (Dec. 15, 1982).

ous May 28, as part of the larger package of trade liberalization measures. However, the Tariff Council did approve additional reductions that had not been previously announced, presumably in anticipation of a visit to the United States by Prime Minister Nakasone scheduled for the week of January 17, 1983.

Of the new duty reductions announced on December 25, those of greatest interest to the United States were tariffs on cigarettes ($60 million in U.S. exports to Japan in 1981), chocolate confectionary ($10 million), kraft paper ($50 million), magnetic tape ($35 million), farm tractors, and numerically controlled machine tools. However, even in those categories the actual reductions fell short of U.S. requests in some cases. For example, while cigarette tariffs were reduced from 35 percent to 20 percent, the U.S. had asked that Japanese duties on cigarettes be eliminated. Further, the tariff reduction was followed shortly by a 20 yen per pack surcharge which, while not affecting the reduced price differential in Japanese and foreign products resulting from the tariff cut, did diminish the impact of the tariff reduction for American companies. In another example involving kraft paper, the tariff reduction was only 2.5 percentage points, leaving the final 9.3 percent tariff well above Japan's 3 percent average rate for all imports. Nevertheless, the newest tariff reductions were not unwelcome and in some cases promised to be potentially significant.

On January 13, 1983, the Government of Japan announced another package of measures dealing with nontariff issues. The measures were accompanied by a statement of Prime Minister Nakasone appealing to the people of Japan "to lend their understanding and cooperation in maintaining firmly the posture of welcoming foreign manufactured goods and investment without discrimination." A number of the measures contained in this package and the December tariff cuts were the subject of serious domestic opposition from affected interest groups in Japan and from within the Liberal Democratic Party. In some cases, it was the personal involvement of Prime Minister Nakasone that resulted in decisions to override opposing interests and to strengthen specific commitments.

(2) *Review of national certification systems.*—The January 13 package contained a variety of features. Undoubtedly the most significant was the announcement of a comprehensive review of Japan's national system governing the certification of imported products which would be conducted by a high level group to be chaired by the Chief Cabinet Secretary. The review was to be conducted with a view to further opening of the Japanese market, possibly through revisions and amendments to existing laws and regulations. Since it had been estimated that as much as 60 percent of U.S. manufactured exports to Japan were being impeded to some degree by burdensome "on the dock" systems in place at the time the review began, it was seen as an extremely important exercise.

The results of the review were announced on March 25, 1983, following an examination of nearly 30 separate Japanese laws. It was decided that the amendment of 17 laws should be proposed to the Diet, including the Pharmaceutical Affairs Law, the Agricultural Chemicals Regulation Law, the Law Concerning Standardization and Proper Labelling of Agricultural and Forestry Products, the

Consumer Product Safety Law, and the Electric Appliance and Material Control Law. Amendments to these laws would be proposed to ensure that certification systems would be applied in a nondiscriminatory manner to domestic and foreign products and suppliers alike. The second goal of the review was to implement specific policies and measures to ensure transparency, promote conformity with international standards, promote the acceptance of foreign test data, and to otherwise simplify and speed up certification procedures.

The initial assessment of the recommendations was positive in the United States, although it was generally agreed that the actual legislation that the Diet passed and the spirit and speed with which it was implemented would be the most important determinant of the essential commercial significance of Japan's commitment.

Progress has continued in this area. On May 18, 1983, the Japanese Diet passed omnibus legislation to revise 16 of Japan's standards and certification laws. A bill had been passed several days earlier changing one other Japanese law. Legislated changes were to be effective 90 days after passage. In fact, the new laws were made effective August 1, 1983.

One immediate area of disappointment in the Japanese package was the certification of automobile imports. In this extremely contentious area of U.S.-Japanese trade relations, it had been hoped that the Japanese would adopt a self-certification system for foreign auto producers similar to the U.S. system (see below, page 15). The feeling has grown in the United States that if the U.S. is willing to trust foreign producers to certify that they in fact meet U.S. standards, that trust should extend from Japan to U.S. producers as well. It has been argued that even despite the increasing efforts of U.S. auto manufacturers to produce more competitive models, it would be highly unlikely that Japan's imports of U.S.-produced automobiles would increase appreciably unless Japan were to allow self-certification by U.S. manufacturers.

(3) *Office of the Trade Ombudsman.*—A second measure of potential significance for resolving market access problems in the January 13 package was the announcement by Japan of its intention to strengthen the Office of the Trade Ombudsman (OTO). It was announced that several improvements would be made in OTO procedures, and, further, that an OTO Advisory Council composed of eight knowledgeable individuals would be established to provide advice and suggestions on all aspects of current OTO activities. The procedural improvements included allowing the filing of complaints by proxy, the strengthening of OTO's liaison and coordinating functions, and the improvement of complaints processing procedures in the Ministeries and agencies concerned. The actual effect of these changes in resolving market access problems remains uncertain since decisions made within specific ministries regarding each question could still not be overruled by the OTO, thereby limiting its effectiveness.

(4) *Tobacco products marketing and distribution.*—The January 13 package contained a decision to expand distribution of foreign tobacco products by the end of March 1983 to all outlets in Nagoya and other major cities, except Tokyo and Osaka. By the end of Oc-

tober 1983, all outlets wishing to handle imported tobacco products in Tokyo and Osaka will be authorized to do so. Finally, efforts will be made to authorize outlets in all other parts of Japan to distribute imported products by the end of March 1985. The package also promised a study of the possibility of establishing an independent distribution network for imported tobacco products. This is a concept of considerable interest in the United States as it is felt that U.S. producers of tobacco products should have the opportunity to market their products freely in Japan. The study, for which no target completion date was mentioned, is linked with a more general "administrative reform" analysis regarding the future status of the Japan Tobacco and Salt Public Corporation which distributes all tobacco products in Japan.

(5) *Government procurement—Nippon Telegraph and Telephone Public Corporation (NTT).*—The January 13 package promised continued procurement of goods by government agencies in accordance with the Government Procurement Code. Further, with respect to NTT, the package stated that measures will continue to be taken actively to ensure the participation of foreign companies in NTT procurement activities.

(6) *Relaxation of import restrictions on agricultural imports.*—The package also contained an announcement of the Japanese Government's decision to relax import restrictions on certain agricultural products, including dried leguminous vegetables, groundnuts, fruit puree and paste, noncitrus fruit juice, tomato juice, and tomato ketchup and sauce. These items are of minor export interest to the United States. Beef and citrus, the agriculture items of primary importance to the United States, were not included in the package.

2. Outstanding Trade Issues

A. NIPPON TELEGRAPH AND TELEPHONE (NTT)

In December 1980, following intensive negotiations, a bilateral agreement was signed between the United States and Japan opening NTT procurement to foreign manufacturers. The agreement, which was signed for a 3-year period, is due to expire in January 1984. Therefore, the results of the agreement are coming under increased scrutiny to determine if the agreement should be renewed, either as is or in some amended form, or allowed to expire.

When the agreement was reached it was said to have offered foreign suppliers the opportunity to participate in about $3 billion worth of business per year, including a special opportunity for Americans to bid on about $1.5 billion per year in high technology telecommunications equipment.[3]

Under the agreement, all NTT purchases are to be made along one of three Tracks. Track I covers all products offered by Japan under the Government Procurement Code. This includes most equipment at the low end of the telecommunications technology spectrum, i.e., telephone units, modems, and some PBXs. Track II covers equipment which is readily available in the marketplace and can be placed in service with some modification to meet the requirements of the NTT network. Track III is used to purchase telecommunication equipment that does not exist in a suitable form in the marketplace but instead must be developed in cooperation with NTT. As such, these Track III purchases require some R&D between NTT and the supplier.

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[3] "Report on Trade Mission to Far East," Subcommittee on Trade, Committee on Ways and Means, U.S. House of Representatives, WMCP: 97-27, Dec. 21, 1981, pp. 11-12.

In the 2-year period following the agreement, U.S. sales of telecommunications equipment to NTT have been disappointing. While annual total procurement by NTT has been $3.1 billion in each of the two years since the agreement was signed, total purchases from U.S. firms amounted to only $54.8 million during fiscal years 1981 and 1982. In fiscal year 1981, total procurement from U.S. firms was $15.2 million, and none was in Track II and Track III. In fiscal year 1982, purchases from U.S. firms more than doubled to $39.6 million, with some purchases under Tracks II and III.

While sales to Japan by U.S. producers have grown slowly, the U.S. domestic market has remained relatively open. Imports into the United States of telecommunications equipment have grown 24–30 percent per year over the last five years, while exports have grown at only half that rate.

Japanese exporters of telecommunications equipment have benefitted significantly from the openness of the U.S. market. In 1982, 45.2 percent of U.S. imports of telecommunications equipment came from Japan. At the same time, only 4.6 percent of U.S. exports of telecommunications equipment went to Japan. The result of this trading relationship was a bilateral trade deficit between the U.S. and Japan that approached $250 million.

Problems which remain in selling to NTT

The last two years have brought marked improvement in NTT procurement procedures and resultant sales opportunities for U.S. and other foreign telecommunications suppliers. Nevertheless, U.S. producers have found that they have continued to face obstacles in selling NTT. For instance, obtaining official approval of their products has in some cases created major delays for U.S. manufacturers. Further, NTT has tended to specify detailed design characteristics for their products, according to U.S. concerns, rather than specifying standards in terms of performance requirements.

NTT argues that the small sales levels by U.S. firms are due to the fact that few U.S. firms have shown sufficient interest in selling to NTT. U.S. firms, they say, have in many instances not bid on NTT contracts or applied for qualification in the majority of contracts let by NTT.

While there appears to be some merit to that argument, it has also been argued that NTT has not yet shown a willingness to open the core of its system to foreign competition by offering bidding opportunities on major high technology products such as central switching systems and transmission apparatus. Certainly a contract in this area to a foreign firm would be a very positive sign by NTT of its willingness to open the heart of its market to foreign competition.

Other reasons given for small numbers of U.S. bids have been that, in some cases, quantities being purchased were too small to warrant the expense of modifing the product to meet NTT requirements. Another is that U.S. firms have not been party to long-term development of certain products. For instance, in the case of semiconductors, NTT argues that it buys systems rather than components. However, NTT has worked closely with several Japanese firms in developing design specifications and has ordered some prototype production from these firms. U.S. firms are particularly anxious to be able to participate in NTT-sponsored cooperative R&D in the future, as it appears that this type of involvement will be critical for future participation in NTT's most sophisticated systems. The criteria for such U.S. firm participation in NTT-sponsored R&D should be clear and nondiscriminatory and should not favor only the most select U.S. firms.

TABLE 2.—NTT PROCUREMENT FROM FOREIGN FIRMS

[Fiscal years 1981–82, in millions of dollars]

Track	1981	1982
I	3.6	16.7
II and III	0	3.6
IIA and IIIA	0	11.8
Below threshold	14.0	14.6
Total foreign	17.6	46.7
Total United States	15.2	39.6
Total NTT procurement: 1981—$3.1 billion. 1982—$3.1 billion.		

Source: Office of the U.S. Trade Representative.

Recent improvements in NTT procedures

NTT has fulfilled the letter of the agreement with its bidding procedures and has, over the life of the agreement, continued to work toward making improvements in its procurement procedures aiming at increasing access for U.S. firms to the NTT procurement market. The latest improvements were announced on March 3, 1983, and included:

1. Acceptance of applications in English.
2. Acceptance of procurement applications in NTT's New York office.
3. Extension of application deadline an extra month for products which are of great interest to U.S. suppliers such as facsimile equipment, PBX, modems, and data terminal equipment.
4. More flexibility in the formulation of NTT product requirements, emphasizing in the case of telephone sets, for instance, functionality and performance.
5. Expansion of the scale of tenders on select offers, by ordering several years' supply.
6. Faster responses to possibility of sales.
7. Simultaneous announcements in Japan and the U.S. of contracts so that American firms can be aware of procurement opportunities immediately.
8. Conformance of contract conditions to international requirements.

In general, it is thought that these measures will improve substantially procedures which U.S. firms have identified as cumbersome. However, it must be stated again that in the final analysis the NTT agreement will be assessed on the basis of commercial results, that is, substantially increased sales by U.S. firms to NTT under all three Tracks of the agreement.

B. HIGH TECHNOLOGY TRADE

Trade in high technology products has been an area of particular interest and concern to the United States in recent years. The U.S. high technology sector is strong, innovative, and highly competitive internationally. However, the continued vitality of U.S. high technology industries worldwide is being threatened, in the opinion of many in the U.S., by increasing foreign government intervention designed to close home markets to direct foreign competition. Those policies are frequently accompanied by aggressive export drives to take advantage of the open U.S. market. The combined result of these actions, of course, is greatly diminished sales opportunities for U.S. firms both at home and abroad.

The Subcommittee on Trade has been concerned about achieving fair and open opportunities for international trade and investment of U.S. high technology industries. Members have supported our trade negotiators in their attempts to achieve more open access abroad for U.S. products. Members supported efforts of the U.S. to begin international discussions in this area at the GATT Ministerial in November 1982. Further, the Subcommittee on Trade has considered legislation concerning high technology trade giving additional authority to our trade negotiators to seek more open markets abroad, as well as legislation that would adequately protect U.S. high technology producers from unfair foreign competition in our home market.

The issue of trade in high technology products with Japan, of course, has been an area of particular concern because Japanese manufacturers are also highly competitive and pose the most immediate threat to the success of our own producers. The Subcommittee has been following with interest the progress of the U.S.-Japan Work Group on High Technology Industries. The Work Group was established to defuse bilateral trade tensions in this area, and to focus on issues specific to our high technology trade with Japan. The U.S. has used the Work Group to broaden U.S. firms' access to Japan's market for high technology goods and services, to create a more equitable balance in technology flows, and to ensure that Japanese competitive practices on our market conform to international rules and obligations.

After its first round of meetings, the Work Group submitted a list of recommendations to the U.S. and Japanese cabinets who, in turn, endorsed the recommendations. The Group's recommendations commit both governments to minimize trade distortions associated with government actions, to ensure full foreign access to trade and investment opportunities, and to open government-sponsored R&D and other industry promotion programs to foreign firms.

The Japanese Government has agreed to develop measures to promote imports of U.S. high technology goods, and both sides will jointly develop a data base to track bookings and billings of U.S.

and Japanese semiconductor firms. Included in the recommendations is a long-term work program that calls for analysis of trade issues in semiconductors, computers, and telecommunications.

Members of the Subcommittee on Trade have welcomed Japan's adoption of the recommendations of the Work Group. However, it will take prompt and thorough implementation of the Work Group's recommendations in order to truly make progress in promoting equitable market opportunities for U.S. producers in the Japanese market, thereby easing bilateral trade tensions in the high technology sector.

C. INVESTMENT

Together the U.S. and Japan represent the two largest sources of investment capital in the world. Historically, though, international direct investment has not been central to the economic relationship between the United States and Japan. Following World War II, Japan enacted restrictive rules allowing foreign direct investment only after case-by-case government screening and approval. It was not until 1979 that Japan amended its laws to ease conditions for foreign investments into Japan through a rewritten version of Japan's Foreign Exchange and Foreign Trade Control Law, which came into effect on December 1, 1980. The screening process was replaced by a notification requirement, although the Japanese government reserved the right to limit individual investments for national security or economic reasons.

While formal restrictions have been eased, U.S. investors have continued to perceive that impediments to establishment, acquisition, and expansion in Japan continue to be significant, particularly in the financial sector. The Finance Ministry has, according to Chalmers Johnson in his recent article entitled "The Internationalization of the Japanese Economy,"[4] established emergency intervention powers which can be used for a variety of purposes, including prevention of volatile swings in exchange rates, the need to offset balance of payments problems, and avoidance of domestic economic disruptions that would affect financial markets. Among the more disturbing uses of these powers has been the designation by the Finance Ministry of Hitachi, Ltd., Fujitsu Fanic, Japan's large robot producer, and even Katakura Industries, a company that produces silk, as exceptions to open investment procedures. Despite the competitiveness of these companies, it is very questionable from the U.S. point of view that foreign investment in them would in any way disrupt Japanese financial markets. As a result, at least partially, of these obstacles, U.S. direct investment in Japan has remained small, accounting for only about 3 percent of the U.S. outward investment position in recent years.

Similarly, Japanese investment in the United States had not been particularly large until recently. Japan's direct overseas investment worldwide began to increase markedly in the early 1970's. The oil crisis caused a temporary lag, but investment increased again in 1978 and has continued to increase since that time. Total outstanding direct investment reached $24.5 billion at the end of 1981. The total Japanese investment position in the U.S. in 1981 was around $6.5 billion. Well over half of Japanese direct investment in the U.S. is in trade and commercial activities, rather than manufacturing.[5]

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[4] Chalmers Johnson, "The 'Internationalization' of the Japanese Economy," California Management Review, vol. XXV, No. 3 (Spring 1983), p. 5.

Direct investment does seem to be rising in both directions, but it would seem advisable that both governments actively seek to identify investment restrictions and work toward their elimination. Larger bilateral direct investment flows between the United States and Japan could improve the economic relationship between our two countries. A greater U.S. presence in Japan would provide better access to the Japanese market and Japan's distribution network, as well as increased exports. More direct investment by the Japanese in the United States would in some cases displace Japanese imports with domestically-produced products and further would reduce protectionist pressures by increasing employment in the U.S.

One positive development that the Delegation was able to view firsthand was the leading role that leaders in Japan's rural regions are taking in attempting to attract investment, both domestic and foreign, in their areas. The motive in these efforts appears to be to attract jobs to, and promote economic development in, areas that have formerly concentrated on agricultural activities and have lagged behind the strong industrial development which has taken place in the area stretching between Tokyo and Osaka. While the central government has tried to encourage companies to locate outside of the Tokyo-Osaka area for years through a mixture of restrictions and incentives, it has not been particularly successful in its efforts.

The local governments, though, have become more actively involved in attracting new investors. Many have opened Tokyo offices to aid in their efforts.

The seven prefectures of Kyushu, the southernmost of Japan's main islands, banded together for a two-week mission to the United States this spring in search of potential investors. The island of Kyushu, whose economic activity had previously centered on such activities as coal mining and agriculture, has in recent years attracted enough high technology companies to become known as "Silicon Island." Because of improvements in the transportation system between Kyushu and the Tokyo area, relatively low-cost rural land, and the higher quality of life where conditions are less congested and polluted, Kyushu has become an attrative investment site for both Japanese and foreign companies.

D. AUTOMOBILES

Although there are clear signs of recovery in the U.S. auto industry, bilateral trade in automobiles continues to be a major source of friction in U.S.-Japan trade relations.[6] Nearly 60 percent of the

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[5] "Facts and Figures on Japan's Overseas Investment," Tokyo, The Nikko Research Center, Ltd., 1982.

[6] Despite a healthy 48 percent gain in domestic-make retail car sales in June 1983, compared with June 1982, imports still accounted for 26.1 percent of the market. The seasonally adjusted

Continued

1982 bilateral merchandise trade deficit with Japan was attributable to automobiles. According to the U.S. Department of Commerce, U.S. employment for the five domestic auto manufacturers during 1982 was 685,000 persons, down 14 percent from the 1981 level and 34 percent from 1978's record level of 1,031,000. (See Report to the Congress from the Secretary of Commerce, June 1983.) The voluntary restraint on auto exports to the United States, implemented by the Government of Japan in the spring of 1981, is now in its third year. In February, the Japanese Government announced that the export restraint would be extended to March 1, 1984, at the same level as the first and second years, 1,680,000 passenger cars. Despite this export restraint, the Japanese companies' share of the U.S. car market increased to 22.6 percent in 1982 from 21.8 percent the previous year, because their sales declined only 3 percent in 1982. Car sales trends are provided in Table 3.

TABLE 3.—PASSENGER CAR SALES IN THE UNITED STATES

[Millions of units]

	Total sales	Domestic sales	Total imports	Japanese imports	Total import share (percent)	Japanese import share (percent)
1978	11.31	9.31	2.00	1.36	17.7	12.0
1979	10.67	8.34	2.33	1.77	21.9	16.6
1980	8.98	6.58	2.40	1.91	26.7	21.2
1981	8.54	6.21	2.33	1.86	27.3	21.8
1982	7.98	5.76	2.22	1.80	27.9	22.6

Sources: MVMA Motor Vehicle Facts and Figures 1982 and Ward's Automotive Reports.

On the other hand, automobile imports into Japan remain minimal. In 1982, foreign autos had less than a 1 percent share of the Japanese market and overall foreign auto sales dropped 3.1 percent to only 36,379 units. American auto makers sold only 3,245 cars in Japan in the 12 months ended March 31, one-half of what they sold the year before.[7] As a result, the U.S. share of the foreign car market in Japan declined to 9.2 percent, down from 37 percent six years ago. The Germans, however, have increased their auto sales by almost 9 percent, giving them nearly three-fourths of the import market.

The inability of U.S. automobile companies to penetrate the Japanese market in large numbers arises from a variety of factors. These include: a lengthy and costly government type-approval process, a complex distribution system, the unique demands and product loyalty of Japanese consumers, a failure by U.S. firms to aggressively market their product in Japan, and the economics of land and energy in Japan. For example, no U.S. auto manufacturer produces right-hand drive cars, and Japan, like England, is a right-hand drive country. And, according to officials at the Yanase Homologation plant in Yokohama, Japanese consumers generally feel that the paint job on U.S. autos is inferior to that of Japanese cars.

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annual selling rate for the domestic industry for June 1983, was 7.3 million units, whereas a year ago the annualized rate was 4.9 million. See Ward's Automotive Reports, July 11, 1983, and the New York Times, July 7, 1983, p. D1.

[7] The Asian Wall Street Journal, May 16, 1983, p. 6.

During the 1982 Subcommittee on Trade hearings on H.R. 5133, the so-called domestic content bill, Chairman Gibbons asked the Chairman of General Motors Corp., Roger B. Smith, whether GM considered Japan a viable market:

> Chairman GIBBONS. One of the complaints . . . is that while the United States only requires . . . manufacturer certification for compliance with our laws on imports, the Japanese require individual inspection of every vehicle by their department of transportation and their environmental safety departments.
>
> Would you expect if things change in a favorable manner that you would ever be in the business of exporting cars to Japan?
>
> Mr. SMITH. We certainly hope so. We believe our products right now are fully competitive. Certainly, there will be a limited market for our larger sized cars. As we have come into the smaller sized cars that are more competitive in the Japanese market, we do believe—we think cars like our new Camaro and Firebird are selling well in other overseas markets, so they are doing very well in Europe, and places where people are conscious of style and quality.
>
> We believe there would be a good market for those cars in Japan, but, unfortunately, between the nontariff trade barriers and the other problems we have shipping into Japan, I do not believe we are going to be in a position to penetrate that market for some time.[8]

Congressional reaction to the current auto trade imbalance and high unemployment has again resulted in the introduction of several bills in the 98th Congress to restrict the importation of Japanese automobiles. In addition to proposals in both the House and Senate that would limit auto imports, legislation that would mandate domestic content requirements for sales of motor vehicles in the United States has been reintroduced. H.R. 1234, "The Fair Practices in Automotive Products Act," the so-called domestic content bill, was favorably reported by the House Committee on Energy and Commerce on June 30, 1983, and is presently under consideration by the Committee on Ways and Means.[9]

In discussions with Japanese Government and Liberal Democratic Party leaders, the Delegation stressed that the automobile trade issue is a major political concern for the U.S. Despite the very positive steps taken by the Japanese Government in the revision of standards and certification laws (see page 6), under the direction of Chief Cabinet Secretary Gotoda, the Delegation expressed its disappointment over the failure to include foreign manufacturers' "self-certification" for autos in this package. While noting U.S. car exports to Japan are small, the Delegation emphasized that the unequal treatment between Japanese and U.S. testing and certification systems contributes to an attitude in the Congress and with the U.S. public that the Japanese market is closed.

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[8] Hearings on H.R. 5133, before the House Committee on Ways and Means, Subcommittee on Trade, 97th Congress, 2d session, p. 435.

[9] Several Members of the Delegation are cosponsors of H.R. 1234. In the 97th Congress, H.R. 5133 passed the House of Representatives in December 1982, by a 215–188 vote margin; the bill was not considered by the Senate due to the expiration of the congressional session.

The Japanese motor vehicle certification system

The Ministry of Transport (MOT) is the agency primarily responsible for inspecting and approving U.S. motor vehicles imported for sale in Japan. Although the approval system applies to both domestic and imported vehicles, U.S. manufacturers are subjected to a "type-notification" system whereby MOT examines extensive documentation submitted by importers and physically inspect each vehicle type. Upon approval, MOT informs its local "Land Transport Offices" located throughout Japan, which in turn inspects each new vehicle prior to registration. Both the U.S. Government and auto manufacturers have complained that this system is costly, time-consuming, and complex. Further, this system tends to put U.S. manufacturers at a disadvantage in the Japanese market because the peak buying season is over by the time final approval is granted.

Following approval, vehicles imported into Japan must still undergo new car conditioning and modification prior to distribution and sale. This procedure, known as "homologation," is described in the next section. Imported cars generally are not subjected to lengthy dockside inspections by Japanese Customs. In fact, Japanese Customs entry procedures are quite routine, once the MOT requirements have been satisfied. For example, after the unloading of car carrier ships at the port of entry, the landed cars are then transported to the new car conditioning plants for homologation. Although these cars are still under Customs custody, Japanese Customs takes no part in the MOT approval process.

The standards revision recently adopted does appear to improve and accelerate the type approval process. However, MOT has repeatedly turned down a U.S. request to recognize U.S. manufacturers' self-certification of automobiles to Japanese standards.[10] The U.S., on the other hand, permits all auto manufacturers simply to self-certify compliance with U.S. regulations. In fact, foreign manufacturers merely have to affix a label to the vehicle certifying compliance with all applicable Federal safety standards. U.S. Customs officials simply verify that the vehicle has the proper label upon importation, and, upon filing of the Customs entry documents at the port of entry, the imports are then distributed directly to retail dealers for sale. The manufacturer thus assumes responsibility for assuring compliance with government standards.

The American businessmen who met with the Delegation in Tokyo noted that MOT is being far more helpful than they have in the past and has begun soliciting U.S. auto industry comments and advice on this issue. In fact, MOT officials are now closely consulting with U.S. auto representatives during an ongoing MOT review of standards certification procedures which may result in further simplification. Moreover, executives of the Japanese Automobile

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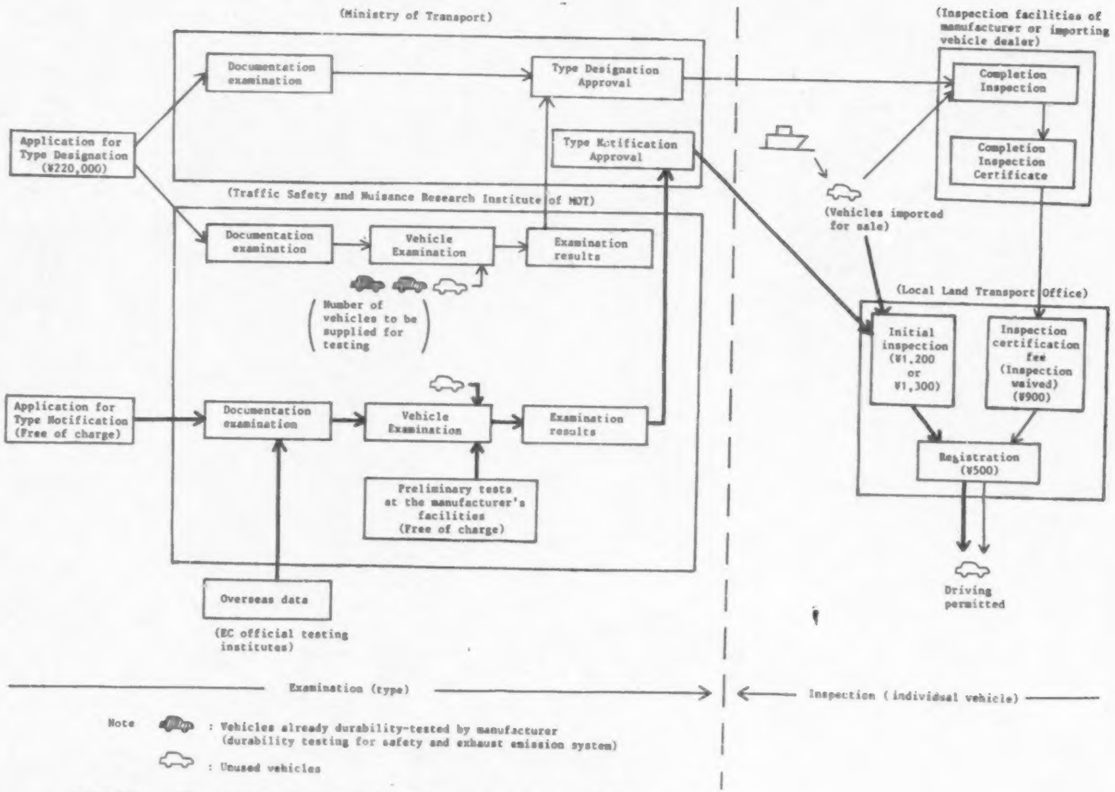
[10] According to MOT, changes in this system include the simplification of required documents by decreasing the number of items to be filled in the specification tables by about 15 percent, an increase in the number of countries to which MOT inspectors will be dispatched, and an increase in the number of designated official testing institutes abroad whose test results are accepted by MOT (see table 4).

Manufacturers Association (JAMA), which represents all the major automakers in Japan, told the Delegation that they have been "shouting" to improve Japanese automobile import procedures.

TABLE 4

Motor Vehicle Examination and Inspection Procedure


(Ministry of Transport)
Application for Type Designation (¥220,000)
Documentation examination
Type Designation Approval
Type Notification Approval
(Traffic Safety and Nuisance Research Institute of MOT)
Documentation examination
Vehicle Examination
Examination results
Number of vehicles to be supplied for testing
Application for Type Notification (Free of charge)
Documentation examination
Vehicle Examination
Examination results
Preliminary tests at the manufacturer's facilities (Free of charge)
Overseas data
(EC official testing institutes)
(Inspection facilities of manufacturer or importing vehicle dealer)
Completion Inspection
Completion Inspection Certificate
(Vehicles imported for sale)
(Local Land Transport Office)
Initial inspection (¥1,200 or ¥1,300)
Inspection certification fee (Inspection waived) (¥900)
Registration (¥500)
Driving permitted
Examination (type)
Inspection (individual vehicle)
Note
: Vehicles already durability-tested by manufacturer (durability testing for safety and exhaust emission system)
: Unused vehicles

SOURCE: The Japan Automotive News, April 1, 1982.

TABLE 5

Procedures for Japan's Certification Systems and Preferential Measures for Imported Motor Vehicles

	1) Type Designation System		2) New Type Notification System		3) Small-Quantity Motor Vehicle Certification System	
	Pre-revision	Post-revision	Pre-revision	Post-revision	Pre-revision	Post-revision*
I. Procedure Requirements						
(a) Volume of documents	approx. 590 pp.	400-450 pp.	approx. 360 pp.	approx. 300 pp.	approx. 100 pp.	approx. 100 pp.
(b) Number of Sample Automobiles	one new model and two durability test-run vehicles	one new model (When durability test data is presented)	one new model	one new model	0	0
(c) Time required for examination/inspection	approx. 7 months	approx. 2.5 months	approx. 2 months	approx. 2 months	approx. 1 month	approx. 1 month
(d) Automobiles to which the system is applicable	Domestic and imported vehicles		Domestic and imported vehicles		Imported vehicles (Sales per year up to 100 vehicles per type)	(Sales per year up to 300 vehicles per type)
II. Preferential Treatment for Imports						
(a) Acceptance of test results conducted based on foreign standards comparable to those of Japan	not permitted	permitted	permitted	permitted	permitted	permitted
(b) Dispatching of inspectors overseas to inspect sample vehicles	not permitted	permitted	permitted	Increase in number of countries to which inspectors to be dispatched	(Examination of sample automobiles unnecessary)	
(c) Acceptance of test results from the designated official testing institutes of foreign countries	not permitted	not permitted	permitted	Increase in number of designated testing institutes abroad	permitted	permitted

*Already Implemented on March 30, 1983

SOURCE: JAMA.

Tour of homologation facility

Congressman Pease and staff traveled to Yokohama to tour the import "homologation" facilities of Yanase & Company, the exclusive importer of General Motors automobiles in Japan. Homologation is the process by which imported automotive products are brought into conformity with domestic standards to allow sale in the Japanese market. This process includes not only the necessary modifications to meet Japanese government safety and licensing requirements, but also the changes needed to meet the high standards of Japanese consumers. The vehicle modifications take place at one of Yanase's three new car conditioning depots, prior to distribution to their retail outlets.

As discussed on page 13, American automobiles have not experienced robust sales in the Japanese market. While part of the problem has been the lengthy certification process and other nontariff barriers affecting U.S. automobiles, another serious problem has been the difficulty of conforming U.S.-made vehicles to the peculiarities of the Japanese market. American automakers have been reluctant to manufacture models specifically for the Japanese market, in part because of these nontariff barriers, but also because large American cars would probably have a limited market in Japan and competition in the smaller models is exceedingly strong.

The tour afforded an opportunity to witness the problems relating to reconditioning of GM vehicles. Because of the need to change or add certain parts such as speedometers and heat shields, and due the considerable work which must be done to improve fit and finish, the average time for reconditioning a GM car in 1982 was 73.4 hours. This does not compare favorably to the mere 10.4 hours required for a Volkswagen or the 14.7 hours for a Mercedes Benz. Nevertheless, Yanase officials did indicate that recent improvements in the quality of GM products has considerably reduced the time for modifications. Repainting requirements, for example, have been reduced from 90 percent of the entire vehicle to only 10 percent. Despite these improvements, considerable progress is still needed to enable U.S. manufacturers to compete in Japan on a large scale. At present, homologation costs alone raise the price of a U.S. vehicle by as much as $2,500.

It was also clear to the Delegation that elimination of homologation costs alone would not be sufficient to improve U.S. sales in the Japanese market. A vast array of barriers still exist in Japan which would seriously limit U.S. sales even if Detroit began manufacturing and marketing autos specifically for the Japanese market. In addition to the problems related to certification and inspections discussed previously, imports are subject to steep commodity taxes which are scaled upwards depending on the size of the vehicle and restrictions on investments which make it virtually impossible for U.S. companies to develop a dealership system. However, it should be pointed out that Japan has a zero tariff on auto imports, whereas the U.S. levies a 2.8 percent ad valorem duty on cars.

Without concerted efforts by the Japanese Government to reduce these impediments, the perception of inequities in our bilateral automobile trade will persist and pressure for tougher restrictions here in the United States on imported Japanese automobiles will continue to grow.

TABLE 6.—AVERAGE TIME REQUIRED FOR NEW CAR CONDITIONING FOR SALE IN JAPANESE MARKET (1982 MODEL)

	VW-Audi	GM	Mercedes
Modification and install radio	1.21	9.17	2.23
New car inspection		0.35	
New car conditioning	3.18	17.87	5.00
Waterleak test and repair		4.88	
Wash and clean		0.96	
Body inspection	0.42	0.67	0.40
Body alignment		1.98	
Body panel repair	1.67	7.02	1.34
Body glass	0.93	4.87	0.43
Paint repair	1.52	17.33	2.24
Body trim		3.36	
Finishing and cleaning		4.26	1.80
Dewax	0.64		0.94
Final inspection	0.48	0.70	0.40
Total time required for new car conditioning (hours)	10.05	73.42	14.78

Source: Yanase & Co., Ltd.

E. MANUFACTURED TOBACCO PRODUCTS

Despite recent progress in reducing barriers to sales of foreign manufactured tobacco products in the Japanese markets, a variety of barriers to foreign sales still exist.

In the latest package of tariff reductions, the Government of Japan reduced the tariff on cigarettes from 35 percent to 10 percent plus 342 yen/thousand which is designed to be equivalent to a 20 percent ad valorem duty. The tariff on cigars was also reduced from 35 percent to 20 percent, and the duty on pipe tobacco was cut from 60 percent to 35 percent. Although the United States had asked for a complete elimination of Japan's duties on tobacco products, the reduction was seen as significant. The price of U.S.-produced cigarettes in Japan would have dropped by 30 yen to 260 yen per pack from 290 yen, compared to 180 yen for brands produced by the Japan Tobacco and Salt Public Corporation (JTS).

However, shortly after the tariff reduction was announced, a proposal was made by the Japanese Government to impose a surcharge of 20 yen on all cigarettes sold in Japan. While, as the Japanese have pointed out, the 20 yen increase represents a greater percentage price increase for Japanese brands than U.S. brands, the final result was only a 10 yen price decrease for U.S. brands from the original 290 yen price, or slightly more than 4 cents at current exchange rates. U.S. manufacturers felt that the resultant minimal price change did little in the end to improve competitiveness of their brands in the Japanese market.

Similarly, the announced increase in the number of retailers allowed to handle foreign cigarettes is a very welcome action for U.S. producers. However, distribution methods, with, for example, JTS distributing its own brands to retailers several times during each month while foreign brands are distributed only once, remain an impediment to the sale of U.S. brands in Japan. Further, the large distribution fee that JTS charges foreign producers is also a factor in the relative competitiveness of U.S. brands.[11]

Another problem U.S. manufacturers face in Japan is advertising restrictions maintained by the Japanese. Foreign cigarette companies are limited to a certain advertising budget based upon their previous year's sales. In 1982, as a result, one large U.S. manufacturer was held to total advertising expenses of $600,000, while JTS could spend more than $70 million.

Marketing restrictions in Japan also place U.S. manufacturers at a disadvantage. Introduction of new brands is delayed at least six months by requirements that they go first to a very small test market. U.S. manufacturers see the test market as unreliable and offering little marketing information. However, they say that it provides competitors with ample opportunity to study the new product, as well as the manufacturer's strategies for marketing, before the product ever is formally introduced.

The importance of these barriers really must be placed in the context of the Japanese market and the potential it provides for foreign producers. The Japanese cigarette market is the fourth largest market in the world behind China, the United States, and the Soviet Union. Each year about 308 billion cigarettes are sold in Japan where the smoking incidence rate is one of the highest in the world.

Currently, 98.6 percent of the cigarettes sold in Japan are manufactured by JTS. However, U.S. manufacturers feel that their potential for significantly higher sales is very great. First, JTS-produced cigarettes are imitations of American brands. About 30 percent of the leaf tobacco used in Japanese cigarettes is imported from the United States to improve their taste. Additionally, U.S. manufacturers found several years ago that when the number of retail outlets allowed to carry U.S. cigarettes increased from 14,000 to 20,000, sales rose more than 20 percent within six months.

Given the potential for U.S. sales in the Japanese market, existing barriers to that market remain troublesome to U.S. producers and need further significant reduction. Specifically, American tobacco product companies should be allowed to distribute their products to licensed retailers by whatever means they choose. Further, they should be allowed to advertise as extensively as they care to through the media they choose, and to conduct market research as they choose. All of Japan's strict regulations in this area are difficult to understand in the United States, since Japan's competitive products do not face similar restrictions here.

F. TARIFFS

Although Japan has reduced many tariffs in its recent liberalization packages and average tariffs in Japan are extremely low, high tariffs still remain on a number of items of significant interest to the United States. Some of those items include: forest products, alcoholic beverages, computers, computer parts and accessories, farm machinery, auto parts, and agricultural products. The United States continues to seek reduction or elimination of tariffs on these items.

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[11] For a discussion of problems facing U.S. exporters and potential of Japanese market, see Testimony of Dale Sisel, Executive Vice President, RJReynolds International, Inc., Before the House Ways and Means Subcommittee on Trade, Mar. 10, 1983.

G. AGRICULTURE

The United States is a net exporter of agricultural products to Japan, which is the single largest market for U.S. agricultural products. In 1982, our bilateral trade balance with Japan was $5.4 billion. This surplus was down from $6.4 billion a year earlier. Most of the downward movement in the trade balance was attributable to a fall in exports which dropped 15 percent from 1981 to 1982.

While the agricultural sector has the most favorable trade balance with Japan among the major commodity sectors, barriers to the Japanese market remain significant impediments to U.S. sales in Japan. While high tariffs and even several aspects of Japan's food distribution system can limit imports, most agricultural trade discussions between the U.S. and Japan have focused on categories of food and agricultural products that are subject to import quotas which are illegal under the GATT. Currently Japan maintains 22 agricultural and marine product quotas, 4 quotas on leather and leather products, and a quota on coal briquettes.

On January 13, 1982, the Government of Japan announced new import levels for six agricultural quota categories of minor export interest to the United States. They were: beans and peas, peanuts, fruit puree and paste, tomato juice, ketchup and sauce, and noncitrus fruit juices. While it is possible that the new quota levels represent a relaxation of previous restrictions, the announced levels are in some cases minimum import levels, according to the government, and less than actual Japanese imports in previous years.

Beef and citrus

No action was taken in the most recent liberalization package to expand import quotas on beef and citrus products. These are both items of particular importance to the United States. During the Tokyo Round of the Multilateral Trade Negotiations (MTN), the U.S. and Japan reached agreement on the staged expansion of beef and citrus quotas through March 31, 1984. Bilateral discussions have been held to discuss the level of Japan's beef and citrus imports following expiration of the current agreement, but no new agreements have yet been reached.

Historically, Japan has been the number one export market for U.S. beef. Since 1980, according to the U.S. Meat Export Federation, the U.S. has increased its share of Japan's imported beef market from 18.4 percent to 25.7 percent.[12] U.S. exporters feel, however, that absent Japan's restrictions on beef imports, sales could be much higher than present levels. Current quotas, a tariff of 25 percent ad valorem, and various surcharges and price markups increase the cost of U.S. beef sold in Japan to three to five times the delivered price. Were supplies allowed to increase to match consumer demand and prices allowed to fall as a result through liberalization measures, the United States feels that annual foreign beef imports, which currently equal only about one-half pound per Japanese citizen, would increase dramatically.

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[12] "Summary of Presentation to the MEF Board of Directors Meeting, Nashville, Tennessee, June 1983," Washington Alert, U.S. Meat Export Federation.

The sale of citrus products in Japan are also subject to strict quotas, high tariffs, and several nontariff barriers. For example, citrus juices are subject to tariffs of over 20 percent, as well as quotas which are announced quite late making it difficult for U.S. shippers to plan their shipments in advance. Further, all imported orange juice must be blended with at least 40 percent domestically-produced satsuma juice prior to sale in Japan. Distribution of foreign-produced juice is also limited in Japan. Juice quotas are allocated to only four associations of domestic juice manufacturers who in turn designate Japanese trading companies for transactions. Again, U.S. exporters feel that the potential market in Japan for citrus imports is substantially larger than current import levels would indicate. Therefore, they strongly advocate elimination of current barriers being maintained by Japan.

C. JAPAN'S INDUSTRIAL POLICY—TARGETING AND IMPLICATIONS FOR INTERNATIONAL TRADE

As relations between the United States and Japan have become increasingly strained in the trade area, Japan's entire commercial and governmental structure has come under increasing scrutiny in the United States. The United States has in the past several years identified and brought to the Japanese Government's attention many tariff and nontariff barriers to trade with Japan. In many cases, Japan has responded to U.S. overtures sooner or later by eliminating or liberalizing the measure which has been identified. To the ever-increasing frustration of U.S. businessmen and trade negotiators, however, the liberalization of many barriers has not seemed to increase access for U.S. products in the Japanese market.

The result has been study of the Japanese system in greater depth, with an aim toward better understanding of the underlying structure which is impeding foreign access. This type of study has yielded particular interest in Japan's industrial policy. Clearly, Japan has enjoyed tremendous economic and commercial success since World War II, having grown from a nation in virtual total economic collapse to one of the most dynamic economies in the world.

Study of Japan's industrial policy has focused on two aspects. First, it is thought that understanding the methods by which Japan has been so successful may suggest ways in which the United States might consider moving to encourage competitiveness of our own industries. The second course of study has been to determine if some of the measures employed by Japan in implementing its industrial policy do not have adverse trade effects for Japan's trading partners that violate either the letter or the spirit of the General Agreement on Tariffs and Trade (GATT).

U.S. businessmen have indicated that their lack of access to the Japanese market, as well as to the Japanese financial and commercial system are, they believe, a direct result of Japanese government targeting policies in certain industries.

1. Japan's Industrial Policies for Emerging and Declining Industries[13]

Japanese industrial policy is concentrated in two areas of the economy. First, it is aimed at promoting early development of emerging industries nationally. Second, at the opposite end of the spectrum, it provides for the orderly decline of so-called mature or declining industries. Japanese industrial policy tools have changed in recent years, owing largely to pressure from Japan's major trading partners. Nevertheless, Japan's policy remains a highly structured program of measures creating a national policy of allocating scarce resources to important industries and coordinating implementation of that policy through extraordinarily close consultation between Japanese industry and the Japanese Government.

In the area of emerging high technology industries the Ministry of International Trade and Industry (MITI) is the key to formulation of policy measures, as well as their implementation. The Ministry of Finance coordinates financial support for industry with overall budgetary concerns.

The general direction of Japan's industrial policy is developed through sector-specific "visions" which are worked out by the Japanese Government in consultation with industry groups, financial organizations, labor organizations, and others. The theme of these visions over the years has been to move Japan's industrial structure toward higher value-added, knowledge intensive industries. The Government of Japan's current plan was published in 1980 by MITI and accords priority to energy-related development and savings, cutting Japanese external resource vulnerability, and expansion of high technology sectors.

MITI's mandate in implementing these visions is quite broad. Consequently, the range of measures available to MITI is diverse and includes tax, antitrust, and competition policy measures special financing programs, environmental regulations, trade measures, and adjustment and regional assistance programs.

The Government of Japan maintains that none of the measures that are utilized in implementing its industrial policy are meant to be protectionist. However, the question has arisen whether the privileged position granted to selected firms as a result of such policies places foreign competitors at a serious disadvantage in the Japanese market. Not only do such firms benefit directly from government programs, but it is felt that their privileged status translates into preferential treatment from creditors, creating a competitive advantage in the Japanese and foreign markets. The total effect can be to give chosen firms in identified sectors protection from foreign competition, a result that would not be in keeping with Japan's GATT obligations. If these industrial policy measures do indeed provide what could be considered a sophisticated form of subsidization, Japan's trading partners should be allowed to exercise their rights under the GATT itself and the Subsidies Code to counteract the unfair advantage that has been bestowed on Japanese producers.

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[13] There are several good new descriptions of Japan's industrial policy. Among them are: "Industrial Policy: Japan's Flexible Approach," General Accounting Office, June 23, 1982; "An Assessment of U.S. Competitiveness in High Technology Industries," U.S. Department of Commerce, February 1983; "International Trade, Industrial Policies, and the Future of American Industry," The Labor-Industry Coalition for International Trade; Jimmy W. Wheeler, et al., "Japanese Industrial Development Policies in the 1980's—Implications for U.S. Trade and Investment," New York, Hudson Institute, October 1982. This is far from an exhaustive list of research material available on this subject.

The problem is very similar in the area of declining industries where MITI and other ministries take an active hand in directing the rationalization of such industries. In 1978, the Japanese Diet passed the Structurally Depressed Industries Law to help industries make long-term adjustments to changing economic conditions under government guidance.

Under the law, an industry may be designated as "structurally depressed," in which case the relevant ministry is empowered to formulate a stabilization plan for the industry. The ministry must forecast supply and demand to measure excess productive capacity, determine how much capacity should be shut down, and decide how the shutdown should be handled. These determinations are made in consultation with an industry advisory commission, which could include labor unions, and Japan's Fair Trade Commission. If the Commission approves the plan, the industry is exempted from provisions of the Antimonopoly Law. Further, the 1978 law authorized establishment of a depressed industries credit fund to ease problems created by closing down portions of an industry.

The law, which expired in June 1983, was replaced by a new version to be terminated within five years. The new law retains provisions for exemption from the Antimonopoly Law. It also offers certain tax advantages, including a new special system of depreciation for new equipment purchased to help revitalize an industry and an increased tax exempt grace period for losses incurred as a result of scrapping excess production facilities.

Again, the government programs for these declining industries raise questions regarding trade effects. One problem is the inclusion in the government relief program of measures designed to protect the industry from disruptive (or as some would argue, competitive) imports. This ensures that the remaining domestic capacity can be fully utilized serving the domestic market. The result of this limiting or managing of imports is that foreign producers of competitive products are unable to compete freely in the Japanese market. Further, the "sanctioned collusion" of the government program can enable the protected Japanese industry to rebound in the international market when market conditions improve, while unprotected industries in the U.S. may go out of business or be forced to reduce capacity too rapidly to reenter the international market on a competitive basis.

Members of the Delegation discussed Japan's industrial policies at length with Japanese leaders at nearly every meeting. Members expressed concern that certain targeting practices, and other elements of Japan's industrial policy, may constitute a form of sophisticated subsidy which distorts trade flows, injures foreign industries, and violates the spirit and letter of the GATT. They expressed the intention of the Subcommittee on Trade to review U.S. trade laws to determine if they are adequate to counter unfair trading practices such as those associated with foreign industrial policies which may be identified. Members clearly stated that any changes in existing law would be consistent with our international obligations under the GATT. They also stated that Subcommittee consideration of legislative changes to our trade laws would take place expeditiously with House consideration contemplated for 1983. (See Appendix A, Tokyo Press Conference, page 46.)

2. Examples of Targeted Industries

A. EMERGING INDUSTRIES

Below are listed known targeted industries as compiled by the Department of Commerce from Japanese sources. These are not the only industries to which GOJ assistance and guidance are given. Rather, they are those listed in various published GOJ documents.

Computers.—Both hardware and software. Ranges from truly frontier technology (5th generation computer) to improved applications of existing technology.

Telecommunications.—Emphasis is on merging new electronics and optics technologies with communications equipment and on advanced systems (satellites, etc.).

Aircraft.—Stated goal is to foster a world-class Japanese commercial aircraft industry by 2010.

Biochemistry.—Japan is very advanced in fermentation process technology but is seeking to develop entire spectrum of related technologies such as bioreactors and recombinant DNA technology.

New Materials.—Encompasses search for new ceramics, alloys, etc., to replace standard metals of today.

New Semiconductor Elements.—Basic research on advanced techniques such as three-dimensional chips, molecular chips.

Ocean Systems.—Resource recovery and ocean related energy generating systems.

Energy Sources.—Search for alternative energy sources, fusion, biomass, etc.

B. DECLINING INDUSTRIES

Industries which will be covered by the new depressed industries law are:

electric-furnace steel
aluminum refining
synthetic fibers
ammonia
urea
phosphoric acid (wet process)
ferrosilicon
cardboard
chemical fertilizers
rayon fiber
paper
ethylene
polyolefin
polyvinyl chloride
ferrochromium
styrene monomer
ethylene oxide glycol
acrylonitrile

Other industries covered under the first law, but excluded from the new version are:

shipbuilding
cotton spinning
wool spinning

D. PLANT TOURS

This section summarizes the impressions and observations of the Delegation during visits to various industrial plant sites in Japan. These tours usually included briefings by company officials as well as a walk through the plant facilities.

A. TEXAS INSTRUMENTS

On April 1, 1983, the Delegation had the privilege of touring the production facilities of Texas Instruments, Inc. (TI) in Hiji, Oita Prefecture on Kyushu. This plant, one of four plants operated by TI in Japan, is used for the production of bipolar integrated circuits. It is part of the growing number of high technology facilities which have been attracted to Kyushu by favorable tax incentives and other elements of the Japanese Government's regional development policies, as well as investment promotion activities of local governments. It is also one of the few high technology firms in Japan which is a wholly-owned subsidiary of a foreign corporation, although the management and local directors are Japanese.

TI's Kyushu plant incorporates all of the latest production techniques and facilities for integrated circuits. The plant boasts a highly trained and educated work force comparable to most similar operations in the U.S. Employee relations are excellent and there is a high level of cooperation with the local prefecture and city governments.

TI officials indicated that there are no restrictions or discriminatory government policies which affect their marketing or other operations in the Japanese market. TI is apparently treated similarly to all other companies in Japan, even in such areas as government procurement and government-sponsored R&D.

Virtually all of the integrated circuits produced in the Kyushu plant are sold in the Japanese market. They are purchased by other large electronics manufacturers or used internally by TI to produce consumer electronics products. TI, which also produces integrated circuits in the U.S., does not find it advantageous to import from Japan as opposed to maintaining internal production.

B. NISSAN MOTOR CO., LTD.

The Delegation was particularly pleased to receive a tour of the Nissan Motor Company Kyushu plant because of the important role this plant plays in Nissan's operations and because of the company's major U.S. investment. The plant, which has produced Datsun light trucks since 1976, is located in Fukuoka Prefecture on Japan's southernmost island of Kyushu. It is one of Nissan's five major assembly plants.

During the plant tour, the Delegation observed the manufacture and assembly of Datsun pickup trucks, including a review of the stamping shop; the body assembly operation; the painting, fitting, and trim line operation; and engine and axle assembly areas; and final inspection and testing. The body assembly operation is assisted by an automated delivery system which delivers pressed steel panels to the welding line. The panels are then welded and assembled by robots and other automated equipment.[14]

Following the tour, Nissan officials described the management practices, labor conditions, and organization of the company. The comprehensive system of benefits for auto workers employed by Nissan include medical and hospital care, subsidized meals, housing, and transportation allowances. As with other Japanese auto companies, facilities for employees include family apartments, bachelor quarters, cafeterias, and infirmaries. The company also has a home loan program for workers. In addition, the company provides its employees with a variety of business-related training programs and foreign language instruction. Complete recreational and cultural facilities such as gyms, fields, classrooms, and clubs are provided by the company. In addition to the use of such well-known systems of quality control circles within the plant, employee suggestion boxes, and long-term employment, the very low absenteeism rate of .4 percent and the cooperative nature of labor-management relations are important features of the Nissan production process. In sum, the automation, the company's concern for the welfare of the employees, and the degree of participation by the rank-and-file worker in the entire operation impressed the Delegation.

The plant tour and meetings with Nissan executives were of particular interest because of the company's recent decision to make a major investment in the U.S. Nissan is constructing a new manufacturing facility to produce light duty trucks on an 850-acre site in Smyrna, Tennessee, which will employ about 2,600 workers.[15] Moreover, the bulk of light truck production will eventually be transferred from Kyushu to Tennessee, thereby making the Kyushu plant available for production of other vehicles. And, during 1982, nearly 400 American employees of the Tennessee plant underwent extensive training in Japanese production and management practices at the Kyushu plant.

Nissan executives informed the Delegation that their investment in Tennessee will amount to nearly $660 million before the first truck is produced. According to Nissan, this is the largest single investment made by a Japanese company in the United States, and it is Nissan's largest investment outside of Japan. The plant will be the most technologically advanced operation in the Nissan system—even more modern than its plants in Japan. Company executives emphasized that in order to succeed in the future in the highly competitive automobile business it was necessary to make a shift from an export-only strategy to a policy of extensive overseas investment, thereby developing a truly transnational operation. This new international emphasis includes the moving of a significant portion of Nissan vehicle production overseas, building new manufacturing facilities, and forming joint ventures.

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[14] One feature commonly used by Japanese automakers, including Nissan, is the "kanban" or just-in-time delivery system. In this system, supplier firms deliver shipments of parts and components to the plant virtually hours before they will go on the assembly line. Operating costs are reduced under this system and efficiency increased because much less investment is needed for parts inventory and storage.

[15] In April 1980, Nissan announced its intention to build a U.S. plant. Ground was broken in February 1981 and light truck production began on June 16, 1983.

The United States has encouraged major investments in the United States by Japanese auto companies for several years, and the Delegation stressed its belief that Nissan's direct investment in Tennessee represents a major step in this direction. Members strongly encouraged Japanese auto companies with whom they met to continue expanding investments in the United States, both in vehicle and parts manufacturing.[16]

C. NIPPON KOKAN

On Thursday, March 31, the Delegation visited the Keihin Steel Works of Nippon Kokan (NKK), located just outside Tokyo in Kawasaki. NKK is an integrated enterprise which includes steelmaking, shipbuilding, construction, and other heavy industries. Its steelmaking operations are located at the 16 million ton capacity Fukuyama plant in Hiroshima (the largest single steel mill in the world), and the smaller but more modern Keihin facility (8 million ton capacity). Overall, NKK is the second largest steel producer in Japan.

The Keihin works, first established in 1912, is now a large, integrated facility with the most modern equipment in the world. It includes basic steelmaking, plate and sheet rolling mills, pipe and tube production, and steel fabricating operations. The centerpiece of the Keihin works is the steelmaking complex of Ohgishima, a manmade island in Tokyo Bay which houses the blast furnaces, continuous casting operations, and plate and sheet mills for the entire Keihin complex. Built from 1971–1979 at a cost of over $5 billion, Ohgishima is perhaps the best example of Japan's appetite for industrial modernization. The plant's advanced technology and highly efficient layout make it one of the most productive steel mills in the world. Because of these factors, the Keihin works afforded an excellent opportunity for the Delegation to examine some of the factors underlying Japan's emergence as one of the world's most dominant and efficient steel producers.

The Delegation toured most of the Ohgishima complex following a briefing and film presented by company officials and technical staff. The film chronicled the construction of Ohgishima, while the briefing provided the Delegation with valuable insights about Japan's steel industry. The following items were of particular interest:

> Because of its modern technology—including computerized blast furnaces, continuous casting, and rolling operations—Ohgishima is capable of producing 6 million tons of finished steel products annually with a total work force of just 8,500. This results in an extremely high productivity rate.
>
> Ohgishima's linear layout for its steelmaking operations results in efficient intraworks transportation, from raw material unloading to product shipment. The company imports virtually all of its coal and iron ore. It also exports approximately 30

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[16] Other Japanese auto companies have already made substantial investments in U.S. facilities. Since 1981, Honda has invested over $250 million in a new automobile plant in Marysville, Ohio, which will employ about 2,000 workers. It began producing the Honda Accord model in November 1982. In February of this year, General Motors and Toyota announced the signing of a 10-year joint venture agreement to build a subcompact car at GM's Fremont, Calif., plant scheduled to begin in late 1984.

percent of its end products. The island setting of Ohgishima is therefore very important and results in greater efficiency.

Twenty percent of the $5 billion investment at Ohgishima was for environmental controls. This included a system for recycling by-product gases for energy production and various equipment for reducing dust, sulfur, and water pollution.

The plant contains a computerized energy-saving system which is highly advanced and results in considerable cost savings. The centralized system monitors energy consumption throughout the plant. Full utilization of by-product gases and recycling of heat energy enables the plant to produce its own electricity at the lowest possible cost.

Employee relations are particularly important to NKK. As with many companies in Japan, quality control circles and rationalized working systems are emphasized. The company provides a number of facilities and programs for its employees. These include health facilities, dormitories and apartments, sports and recreation centers, and even company-owned resort areas.

The work force at Ohgishima is highly skilled, as would be expected in a plant with such a high level of technology. Most of the plant's employees are trained in more than one technical skill to allow movement of workers throughout the plant.

While an employee union does exist, it is an intracompany union (as is frequently the case in Japan) and strikes are virtually unheard of. Hourly benefits are high for Japan, but still below those received by U.S. steelworkers.

Following the briefing, Delegation Members toured the Ohgishima complex. The group visited the raw materials yards, blast furnaces, continuous casters, and hot strip mill. Members were uniformly impressed by the plant's facilities. It was pointed out that the two blast furnaces are among the largest and most modern in the world. Continuous casters are an integral part of the production process and result in considerable productivity gains. Perhaps most impressive was the hot strip mill, which is entirely automated and operates with only 20 employees per shift.

The Keihin visit demonstrated to the Delegation the importance of new investment and new technology to an efficient and competitive steel industry. Although entirely dependent on imported raw materials, Japan has become one of the world's three largest steel producers (in addition to the U.S.S.R. and the United States) and the largest exporter. Because much of its investment is more recent than in the United States, Japan has a considerable lead in such critical areas as plant capacity, blast furnace technology, and continuous casters. The following table indicates the lead enjoyed by Japan in these areas:

TABLE 7

	United States	European Community	Japan	Canada
Number of blast furnaces with an inner volume in excess of 2,000 cubic meters	6	19	39	1
Number of plants with raw steel capacity in excess of 6 million net tons	4	8	12	1

TABLE 7—Continued

	United States	European Community	Japan	Canada
Continuous casting:				
Output in million net tons	25.0	55.2	73.0	4.5
Percentage of total output	28.2	40.0	71.0	25.0

Source: AISI, Annual Statistical Report (1982); "Japan's Iron and Steel Industry" (1982).

Largely due to these factors, Japan now enjoys a considerable advantage in productivity as reflected by both unit labor costs and finished steel yield:

TABLE 8

[Blue and white collar employees, including contract workers]

	Hourly employment costs (dollars)		Hours per net ton of steel shipped		Unit labor cost (dollars)	
	1960	1982	1960	1982	1960	1982
United States	3.95	23.00	17	9	67	207
European Community	1.16	12.50	21	10	24	125
Japan	.54	10.00	51	7	28	70

[In percent]

	United States	European Community	Japan	Canada
Yield, or the amount of finished steel obtained per ton of raw steel produced (adjusted for differences in product mix)	72	77	85	75

Sources: AISI, Annual Statistical Report, various issues and Steel Employment News, Mar. 11, 1982 (white collar employee differential estimated); Eurostat, Wages and Incomes, various issues; Ministry of Labor, Japan, Monthly Survey of Labor Statistics; NRI (a consulting firm) Tokyo; World Steel in Figures (1980).

Despite these gains, Japan is losing its competitive advantage in steelmaking to lower cost producers such as South Korea and Taiwan. As a result, investment in new facilities has been curtailed significantly and increased emphasis is being placed on so-called "new technology" steel products with highly specialized uses. Nevertheless, Japan maintains a very strong competitive position in the world steel industry and its continued development presents both a challenge and a lesson for the United States. In meeting the challenge of new investment and higher productivity, the U.S. can gain considerable knowledge from the Japanese. Greater cooperation, including possible joint ventures with Japanese firms, should be encouraged as a means of closing the productivity gap.

In discussions with Japanese steel industry officials, the Delegation was very forthright about the applicability of current U.S. trade laws to problems of unfair trade—particularly subsidies and dumping. Recently, Japanese firms have shown considerable restraint in their exports to the United States. In fact, Japanese shipments are down nearly 43 percent for the first five months of 1983.[17] However, the Delegation indicated to Japanese officials its strong support for enforcement of such laws against any unfair trade in steel products.

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[17] American Iron & Steel Institute, Steel Import News (June 29, 1983).

D. MITSUBISHI HEAVY INDUSTRIES

On April 4, 1983, the Delegation toured the Mitsubishi Heavy Industries (MHI) Shipyard in Nagasaki. This vast facility, with an annual shipbuilding capacity of 2,400,000 gross tons, is among the world's largest. Its largest dry dock, the 990 meter building dry dock completed in 1972, has a maximum shipbuilding capacity of 1,000,000 deadweight tons.

The Delegation toured the dry dock area as well as the machine and boiler production plant. Among the projects underway were the construction of several large bulk carriers, fabrication of parts for liquid natural gas container ships, and use of the machine plant to fabricate large electric power generators for electrical utilities. This latter project is but one example of how MHI has been compelled to utilize the shipyard for nonshipbuilding activities because of the slowdown in shipbuilding.

In meetings with company executives, the Delegation was made aware of the pervasiveness of the recession in Japan's heavy industry sector. Shipbuilding is a highly labor-intensive activity, and emerging shipbuilding nations such as Korea and Brazil have cut dramatically into Japan's world market share. Furthermore, company executives were very frank in their view that MHI would have to phase out of basic shipbuilding and move into more technology-intensive fields. At present, Japan maintains an edge in the production of liquid natural gas container ships, because of the high technology required. However, in the near future even this technology will be dispersed.

E. EXCHANGE RATES

During the last year, the U.S dollar has been particularly strong relative to all major currencies. However, less than five years ago, the dollar was dangerously low relative to those same currencies and required an internationally coordinated rescue effort. This volatility of exchange rates has had the effect of distorting international trade flows and affecting the price of goods worldwide.

In the U.S. there have been undesirable effects on the economy. The current strong dollar has placed U.S. producers at a serious disadvantage. As the value of the dollar has risen, the price of U.S. exports has increased relative to foreign-produced goods. This has reduced U.S. competitiveness overseas. At the same time, foreign imports have become cheaper in the United States, again placing our producers at a disadvantage.

1. The Yen/Dollar Relationship

Of all the exchange rate relationships between the dollar and other major currencies, it is the relationship of the yen and the dollar which has been the most controversial. Due to factors related to other frictions in our trading relationship with Japan, the consequences of the undervaluation of the yen (or conversely, the overvaluation of the dollar) have been particularly significant. U.S.

businessmen feel that they have been placed at a competitive disadvantage vis-a-vis their Japanese competitors at home, in Japan, and in third country markets due to the imbalance in the yen/dollar relationship. The Japanese have other complaints. They find that the current currency relationship places their importers at a disadvantage and fuels tensions in the international trading system.

While the yen has strengthened significantly since then, the Japanese yen reached record lows vis-a-vis the U.S. dollar in November 1982, falling to more than 275 yen per dollar. In late 1978, the yen had reached record highs, having climbed to 175.5 yen per dollar.

A number of reasons have been advanced for the yen's current weakness. The primary reason seems to be the gap in interest rates between the U.S. and Japan. Higher U.S. interest rates encourage a shift of capital from Japan to the United States, strengthening the dollar and weakening the yen. Another factor influencing the exchange rate imbalance has been that international political and economic uncertainties, such as unrest in the Middle East and the financial difficulties of several developing countries, make the U.S. appealing to investors as a "safe haven" and the dollar attractive as a source of liquidity. Also, the Japanese economy is not particularly strong, having been marked by falling exports in 1982 despite the yen's depreciation and a massive government budget deficit. Finally, concerns regarding the future of the international trading system have weakened the yen's attractiveness. Should there be a significant move toward protectionism internationally, Japan, as a major exporter, would stand to be a major loser.

One factor that has not appeared to influence the yen/dollar relationship has been unfair manipulation by the Government of Japan to hold the value of the yen down. On the contrary, last year Japan's reserves were reduced by several billion dollars. Much of that reduction was due to Japanese government intervention in exchange markets to support the value of the yen.

2. Ways to Address the Currency Imbalance

A. INTERNATIONALLY

Despite the particularly significant effects of the yen/dollar imbalance, the dollar is currently generally thought to be overvalued in terms of all other major currencies. Percentage appreciation of the dollar since it hit record lows has been as great or even greater vis-a-vis other major currencies as it has been against the yen.

Therefore, Members of the Delegation strongly recommended to Japanese and U.S. officials that leaders of the world's leading economies initiate an international discussion of current exchange rates and the international monetary system, beginning at the Economic Summit at Williamsburg. The Delegation indicated that until an international discussion is initiated in this area, our existing trade problems will not only continue, but could be exacerbated by continued instability in exchange rate relationships.

B. LIBERALIZATION OF JAPAN'S CAPITAL MARKET AND INTERNATIONALIZATION OF THE YEN

Another area that deserves additional attention and could produce greater long-term balance in the yen/dollar relationship is the Japanese capital market and the international position of the yen. Japan's capital market is clearly more open today than it has ever been. However, further liberalization and resultant internationalization of the yen would act in the long-run to permit a more efficient allocation of global financial resources, give U.S. firms competitive access to yen financing, and permit fairer and increased global competition.

Progress to date

As mentioned earlier, Japan significantly liberalized controls on capital flows in 1980 with the implementation of the Amended Foreign Exchange Control Law. Since then, other measures have been taken as well, partly in response to pressure from the United States. The U.S. Export-Import Bank has an agreement with the Japanese providing for access to yen loans under Exim guarantee to finance U.S. exports. Japanese securities firms announced that, effective January 1, 1983, the maximum wait for foreign yen bond issues in Japan would be cut from 1 year to 3 months, a AAA rating would automatically qualify a borrower to issue yen bonds in Japan, and the limit of one foreign corporate yen bond issue per quarter would be eliminated. Further, as mentioned above, the May 27, 1982 package of trade liberalization measures contained a statement welcoming foreign direct investment in Japan and pledging facilitation of foreign borrowing in the Japanese financial market.

Japan does, however, maintain a variety of financial controls affecting both capital outflows and inflows. These controls have undoubtedly held the Japanese interest rate structure below market clearing levels, which has acted to depress the value of the yen. In the area of controls on outflows, Japan maintains quantitative ceilings on foreign access to syndicated bank yen lending and the Japanese bond market. The Ministry of Finance controls the levels at which banks in Japan are permitted to lend overseas in foreign currencies. Japanese life insurance companies restrain investments to 10 percent or less of the increase in their assets.

Controls on capital inflows exist as well. Spot position controls operate to limit increases in the net foreign currency liabilities of banks in Japan. Yen borrowing overseas by residents is generally frowned upon. Foreign investment in Japanese real estate for speculative purposes is controlled.

It has been argued that further liberalization of Japan's capital market could act to encourage further weakening of the yen in the short run. Clearly, Japan's liberalization measures have allowed increased, net long-term capital outflows from Japan, reflecting pent-up demand for portfolio diversification in Japan, as well as interest rate differentials between the U.S. and Japan. The result, as explained earlier, has been a weakening of the yen.

However, while providing greater freedom for capital outflows from Japan might indeed weaken the yen in the short run, it has also been suggested that there is latent demand for the yen as a transactions medium and as a store of value (two characteristics of a reserve currency) that could be realized if the Japanese capital market were fully opened and a full range of sophisticated financial instruments were available to investors. Increased demand for the yen, of course, will tend to strengthen its value internationally. Hence, Members of the Subcommittee on Trade strongly urged the Government of Japan to fully open its financial system to participation by foreigners.

II. REPUBLIC OF KOREA

A. UNITED STATES-KOREA TRADE

Although security, political stability, and mutual defense efforts are the elements most often associated with Korean-U.S. relations, the trade relationship between the two countries continues to grow in importance. Economic prosperity is the most reliable foundation upon which to base defense and security needs, and Korea has made great strides over the last two decades in building a successful market-oriented industrial economy.

Unlike many other East Asian economies, Korea has maintained a steady and respectable growth in GNP since the early 1960s, averaging 6 percent annually. Korea experienced a serious recession in 1980, when the annual inflation rate exceeded 20 percent and real GNP declined by 6.2 percent. The recession was caused by a variety of internal and external factors, including: rapidly increasing wage rates, an accelerating rate of inflation, recession in important developed country markets, the petroleum shock of 1979, political instability following the assassination of President Park, and a major failure of the rice crop in 1980. However, Korea brought its problems quickly under control and its economy grew by 7.1 percent and 6 percent in 1981 and 1982, respectively. The average annual inflation rate in 1982 was down to 5 percent and a 4 percent rate is targeted for 1983. A 7.5 percent growth in GNP has been forecast for 1983.

Although improved export performance led the slow recovery beginning in 1981, especially heavy industrial goods, exports in general do not lead Korea's economic growth. Growth has been fueled by domestic and overseas construction, continued industrialization, and development of natural resources such as hydroelectric power. Growth of the Korean economy has been steady in spite of periods of depressed exports in recent years. Since 1972, Korea's balance of trade with the world has been negative. However, continued improvements in the balance of trade and increased payments from overseas construction contracts have reduced the current account deficit to about $2 billion in 1982.

Korea is our ninth largest trading partner, our sixth largest export market, and our third largest market for agricultural exports. The trade relationship was enhanced further in 1982 when the U.S. surpassed Japan as Korea's largest trading partner. Two-way trade totaled $10.3 billion in 1981 and $11.2 billion in 1982. Bilateral trade between the two countries is essentially balanced, with the U.S. having a slight surplus in six of the last eleven years. In 1982, the U.S. had a slight deficit with Korea of $102 million.

TABLE 9

1982 leading U.S. exports:	
Machinery and equipment	$1,700,000,000
Agricultural goods	1,200,000,000
Chemicals and related products	671,000,000
1982 leading imports from Korea:	
Textiles and apparel	1,500,000,000
Machinery and equipment	1,200,000,000
Metal and mineral products	817,000,000
Footwear	744,000,000

Source: International Trade Commission.

B. BILATERAL RELATIONSHIP

Security and defense concerns are of the utmost importance, and they provide the underlying perspective from which most issues, whether bilateral, multilateral, or domestic, are viewed. Korea spends 6.3 percent of its GNP for defense with defense expenditures representing one-third of its national budget. Continued access to the U.S. market is considered the key factor in maintaining a healthy and expanding economy sufficient to meet critical defense needs as well as other economic and social goals. Also important to Korea's economic and defense needs is continued growth in U.S. exports to that country, especially in goods at the high end of the technology scale. Technology transfer is a source of concern to Korean officials who complain that U.S. exports to Korea continue to increase, rising significantly in 1982—a time when imports from all sources to Korea were falling.

As part of the current five-year economic plan (1982–1986), the Korean Government is committed to a 90 percent liberalization of its import regime by the end of the plan's period. Because this policy will have a direct effect on import growth, especially in light of its chronic trade deficit, Korea also is seeking ways to accelerate exports and, more importantly for the United States, to attempt to attract more foreign investment. Korea, therefore, is concerned about protectionist measures in countries that represent existing or potential export markets, and therefore continues to support the proposal, offered at the recent GATT Ministerial, that called for a "ceasefire" or freeze on protectionist measures to be followed by a dismantling of such barriers led by the developed countries.

The United States continues to pressure South Korea to move faster toward trade liberalization with a particular emphasis on a loosening of investment controls and regulations. Korea's response generally has been that their improvement has been steady but, as a developing country, they need to be given a few years to realign their economy before becoming what would be acceptable as completely free trade. Their goal is to reach the level of liberalization of most developed countries by 1986 or 1987. Also, government officials are quick to point out that Korean businesses have strongly resisted import liberalization and want to maintain existing levels of protection for as long as possible or to offset liberalization with new protectionist measures. The government, nevertheless, believes that democracy and a free and open market will ensure long-term prosperity and free trade must be pursued at an accelerated pace.

The Delegation agreed with the Minister of Industry and Commerce that Korea's goals were compatible with those of the U.S.

and their intentions were good. However, in some areas, opportunities for U.S. businesses in Korea were diminishing as the result of trade and investment barriers especially in the areas of government procurement, licensing regulations, equity participation and other investment restrictions, and access for U.S. services industries. Members also cautioned Korea not to follow Japan's example of targeting industries and emphasized that Congress likely would act this year to prevent any adverse effects of targeting on the U.S. market. Countries who undertake targeting practices should not assume that the U.S. market will automatically absorb subsidized imports. Members also cautioned against following the Japanese example of bureaucratic inertia as well as conflicting application of directives toward trade liberalization from policy levels of the government.

1. Investment and Business Practices

Restrictions on foreign investment in the Korean market is a common complaint from American business. Currently, there are primarily two forms of entry for foreign investors: a branch or liaison office or equity participation in the form of a joint venture. Both forms of doing business are tightly controlled in terms of the initial entry approvals and the scope of permissible activities. U.S. investors complain that, although the guidelines of foreign investment appear to be broad in scope, the implementation of such guidelines is extremely restrictive and often inconsistent.

Korean government officials have promised continued liberalization in the investment area but except for pharmaceuticals, little actual progress has been made in recent years. However, in an attempt to upgrade its technololgy base and improve product quality, the Korean Government announced new regulations designed to gradually loosen their rigid controls on foreign investment. The new regulations, effective beginning this year, provide for a reduction in the number of government approvals required for many proposed investments, an expansion of the number of industries in which foreigners may invest, and easier approval of technical licensing agreements and foreign currency commercial and syndicated loans.

These improvements do not appear to address two other key problems: percentage ownership limitations on foreign investors in joint ventures and currency and other restrictions that make it difficult to repatriate profits. Equity participation by U.S. partners in joint ventures has consistently been limited to 50 percent or less through formal and informal guidelines. Unlike neighboring Asian countries where U.S. investors are able to easily obtain 100 percent ownership, it is rare for a U.S. company to obtain a majority equity position in a joint venture company in Korea. If such a majority position is initially approved, the U.S. investor is typically required to reduce its participation to 50 percent within five years. In addition, repatriation of the profits earned through U.S. equity participation is sometimes difficult.

Complaints by U.S. business with respect to not being able to repatriate profits appears to be somewhat exaggerated. The table below indicates the amount invested annually in Korea over the last few years and the amount repatriated during those years as well as a 20-year cumulative figure. It is true that company books are scrutinized closely before repatriation of profits can take place and this means that businesses must spend time and effort in completing the process and make information disclosures that would not be required elsewhere.

TABLE 10.—KOREAN PROFIT REMITTANCE ON U.S FOREIGN INVESTMENT

[In millions of dollars]

	1981	1982	Cumulative 1962–82
Remittance on U.S. foreign investment	20.8	27.5	242.6
Amount of new U.S. investment	62.2	60.0	374.0

Source: U.S. Department of State.

With respect to the general business environment, the most common complaint from U.S. businesses operating in Korea is the complicated and inconsistent government bureaucracy. There often is significant disagreement among ministries over implementation of policy and some directives do not get carried out at the working level. In some instances, laws and regulations are applied retroactively which penalizes certain industries and contributes to uncertainty. Other frequent complaints include:

1. Failure to abide by agreements, repeated attempts to renegotiate contracts, and lack of recognition of the sanctity of contract.
2. Patent, trademark, and copyright laws are inadequate and investors are reluctant to bring in the high technology which Korea needs.
3. Business limitations are placed on companies by the officially approved scope of business, which is subject to interpretation. This impacts on industrial gas companies, pharmaceutical companies, and other companies importing machinery, goods, and services.
4. Contracts for goods are frequently unilaterally abrogated if the world price falls below that specified in the contract.
5. The ROKG and private industry frequently refuse to make payments per contracts on goods, services, and royalties. If payments are late, interest charges are often ignored.

2. Licensing

Korea continues to maintain extremely restrictive import licensing practices and American businesses register more complaints about licensing practices than about any other trade barrier. The restrictions affect both agricultural and industrial goods and have been especially damaging to U.S. export potential with respect to citrus, canned fruits, almonds, liquor and tobacco products, machine tools, computers, high quality consumers electronics, finished textile goods, most petrochemicals, and major home appliances.

Licensing restrictions prevent U.S. businesses, trading companies, and service industries from competing on an equal basis with their Korean counterparts. Specific examples where national treatment is not accorded foreign firms include:

1. The import licensing system prevents the general importation of a variety of agricultural products. Fresh and processed citrus may not be imported without approval of the Ministry of Commerce and Industry and, to date, approval has been granted only to suppliers of tourist institutions and foreign commissaries. Import licenses for almonds are linked to exports of chestnuts, i.e., almond importers can obtain licenses only up to 5 percent of their raw chestnut export value and 20 percent of their finished chestnut export value.

2. A number of U.S. firms that previously exported to Korea have been unable to obtain import licenses recently on the grounds that they compete with domestic Korean production. There seems to be a pattern of permitting imports only until a Korean manufacturer is able to make the product.

3. For many import restricted items, approval of an import license is subject to a recommendation from or regulations promulgated by the relevant industry association. Industry associations are not likely to be entirely objective in determining whether or not imports would be detrimental to local production.

4. Import licenses are often denied when U.S. products have different characteristics and specifications than local production.

5. Except for certain branch offices selling their parent company's products, foreign trading companies are not granted trading licenses and are thereby prevented from importing and exporting in their own name or from taking a principal's position, and in most cases, from wholesaling or carrying inventories. This is not the case of Korean companies in the U.S.

6. Foreign trading companies and the principals they represent face market access problems not dissimilar with Japan. Commodities are classified for customs by Brussels Tariff Nomenclature (BTN) and Customs Cooperation Council Nomenclature (CCCN) for importation and require specific import approval, in most cases, based on commodity description. The import plan is adjusted semiannually and advance information on liberalization or banned imports is not "officially" available.

7. U.S. imports to Korea of manufactured goods require after-sales service and parts inventories. These functions cannot be carried out by foreign trading companies because of licensing restrictions. Foreign trading companies cannot directly import spare parts as inventory for prompt after-sales service to end-users. This places U.S. companies at a competitive disadvantage because of Japan's geographic proximity.

3. Computer Decree

The Government of Korea has taken a number of steps to reduce access to the Korean market for U.S. computer exports and to promote the growth and development of the domestic Korean computer industry. On July 1, 1982, the Ministry of Commerce and Industry issued new criteria for the importation of computers which make it very difficult for foreign suppliers to sell their products in Korea unless they participate in a computer localization plan. Priority for the importation of medium and larger-sized computers is given to suppliers which participate in a computer localization scheme whereby the transfer of technology takes place through the production of components in Korea. Importation of mini-micro and personal computers is banned as is the importation of printers, disks, and terminals.

The computer decree follows the promulgation of the Electronics Industry Promotion Law of 1981. Though the law itself still lacks implementing regulations, the intent of the law clearly is to upgrade the domestic electronics industry and promote localization and export promotion. This is accomplished through various investment incentives, subsidies, and research and development assistance. The computer decree is seen as one facet of the government's overall electronics industry targeting program.

There is a great deal of sensitivity in the United States on the part of government, industry, and labor about government involvement in "targeting" schemes designed to protect favored industries in the home market while preparing that industry to make substantial inroads in other, more open markets. Members reiterated that they considered targeting an unfair trade practice and planned to push for changes in the law that would provide early monitoring of and rapid response to targeting practices.

4. Generalized System of Preferences (GSP)

The U.S. Generalized System of Preferences (GSP) will expire in January of 1985. Korea, the second leading beneficiary under the current program, is extremely interested in the nature and timing of GSP renewal. Members pointed out to Korean officials that GSP renewal will not be an easy task and that, because of continued domestic economic difficulties, pressure would be focused on reducing benefits for those products exported from countries whose competitiveness equaled that of developed countries. How advanced developing countries benefit under GSP compared to the last developed countries is likely to be one of the primary issues considered by the Congress with respect to legislation to renew the program.

Like other industrialized countries, the United States views the GSP as a temporary unilateral system of tariff preferences designed to assist developing countries in diversifying their exports to achieve economic growth. Approximately 140 less developed countries (LDCs) participate in the U.S. program, which provides duty-free treatment on almost 3,000 products. While GSP trade is viewed as highly significant by most beneficiary countries, it represents only 3 percent of total U.S. imports.

Duty-free GSP imports increased from $3.0 billion in 1976, the program's first year in operation, to $8.4 billion in 1982. The top five beneficiary countries receive 64 percent of the GSP benefits. About 19 percent or $1.9 billion of U.S. total imports of $5.6 billion from Korea received GSP duty-free treatment in 1982, accounting for 13 percent of total GSP-free imports. Although the statutory "competitive need" limitations of the current program plus the Administration's discretionary "graduation" policy have removed many Korean products from GSP treatment, GSP-free imports from Korea have tripled during the 1976–1982 period.

While statutory authority for the U.S. GSP will expire in January 1985, most other industrialized countries maintaining GSP programs have recently extended their programs through the end of this decade. The Administration has recently submitted draft legislation to the Congress seeking an extension of the U.S. GSP program as well. This proposal would increase the "graduation" from GSP eligibility of highly competitive products and use GSP as a means to seek reductions in LDC trade barriers in U.S. exports. Many U.S. firms have identified LDC trade barriers which, if reduced or eliminated, could significantly expand U.S. exports to LDCs, which already account for nearly 40 percent of U.S. exports. Korea is viewed as a priority market by many U.S. producers, who have expressed serious concerns about such practices as violations of industrial property rights.

5. *Korean Industrial Policy*

Korea seems to be following Japan's lead with respect to industrial development. Korea's plans for economic growth have centered on expanded domestic development. Recent plans include an increased emphasis on exports as the focus of future growth. As is often the case in Japan, Korea has begun to target industries with export potential for favored government incentives and to protect these industries in the home market while they become fully competitive in export markets such as the U.S. Comparable industries in the U.S., while being blocked from selling in the Korean market, later find themselves injured by increased exports from that country.

While recognizing that some of Korea's practices are designed to protect themselves from Jap[illegible] targeting schemes, Members expressed concern that, in f[illegible] Japan's example, Korea would be contributing to the pres[illegible] protectionist solutions to unfair targeting practices and c[illegible]ld b[illegible]h more adversely affected by such responses. They enc[illegible]rea to be more active in the GATT in supporting multilat[illegible]line over trade distorting practices, including targetin[illegible] refrain from such practices themselves. When the U.S. acts against targeting practices, it will be difficult to make any distinction between developed countries, such as Japan, and newly industrialized countries, such as Korea.

C. U.S.-ROK SECURITY ARRANGEMENTS

Our security relationship with the Republic of Korea is a key element in our strategy in Northeast Asia. U.S. support for Korean security is embodied in the 1954 U.S.-ROK Mutual Defense Treaty and is manifest in the presence of some 39,000 troops in Korea. This commitment has been crucial to the maintenance of peace in the area and has contributed to a stable environment for economic development.

The Koreans regard our active participation in the defense of Korea as essential to the protection of their national independence and attach special importance to periodic high-level reaffirmations of U.S. support. This message was clearly brought to the Delegation's attention during our visit to Seoul. In the past two years, these have taken place during the Reagan-Chun summit in February 1981; the April 1981 and October 1981 meetings in Washington with the Foreign Minister and other cabinet-level contacts; and, most recently, the visit by Vice President Bush.

Although defense spending is currently running at about 6 percent of the GNP, South Korea's plans for modernizing its forces in order to correct the military imbalance have been severely hampered by inflation and reductions in government revenue caused by the 1980 recession. We have a long-standing commitment to assist the Korean defense effort by providing Foreign Military Sales credits to assist the Koreans to purchase from U.S. suppliers, but resources have been limited. We provided $163 million in fiscal year 1981; the target for fiscal year 1982 is $166 million and for fiscal year 1983 is $210 million.

The Members' visit to the Demilitarized Zone (DMZ) made the need for continued security arrangements apparent. Isolated and almost devoid of population, the DMZ is a 4-mile-wide strip which divides North and South Korea. At the United Nations Joint Security area, buildings, divided in half by the border between North and South, provide the setting for perfunctory and fruitless meetings between United Nations security forces and the North Koreans. In limited numbers, South Korean citizens have obtained rights to farm land in the southern half of the DMZ and have established small villages, but they are constantly subject to propaganda broadcasts and other harrassment from the North. Members toured the areas and were briefed on the status of UN oversight activities in the area and on the cooperative efforts between the U.S. and South Korea to prevent aggressive acts.

III. HONG KONG

Representative Carroll Campbell visited Hong Kong for one day of meetings on March 30 with Secretary of Trade and Industry Eric Ho and other Hong Kong trade officials. The purpose of the meeting was to discuss the problem of formal or informal activities by holders of textile quota licenses to restrict the sale of such licenses to particular firms.

Complaints had been raised that textile firms contemplating moving part or all of their business to the United States were being discriminated against and, therefore, were finding it increasingly difficult to purchase quota licenses sufficient to meet export needs. Questions were also raised about the policy of the Hong Kong government in assuring that normal commercial market forces were not disrupted by discriminatory acts.

Following a thorough discussion of the issues, Mr. Ho assured Congressman Campbell that the Hong Kong government in no way encouraged discriminatory activity or ignored it, should brokers or others engage in such activity; however, he felt that the shortage of quota licenses (and, as a consequence, higher prices) were the result of tighter textile quotas under the MFA bilaterals with the U.S. He said that difficulty in purchasing quotas was due to market forces and more restrictive U.S. quotas, and the effects were being experienced by all Hong Kong companies in the same situation. Nevertheless, because of concern over U.S.-Hong Kong textile relations, Mr. Ho promised that his office would investigate the allegations to determine if some firms were the subject of discrimination based on a decision to relocate in the U.S.

In conjunction with the investigation by Hong Kong officials, U.S. embassy personnel also surveyed the availability of textile quota licenses in particular categories of products. Some additional quota amounts have subsequently become available and discussions are continuing between U.S. and Hong Kong trade officials on the equitable distribution of quota licenses.

APPENDIXES

APPENDIX A: TRANSCRIPT OF PRESS CONFERENCE BY MEMBERS OF THE HOUSE COMMITTEE ON WAYS AND MEANS, U.S. EMBASSY AUDITORIUM, TOKYO, MARCH 30, 1983

Mr. GIBBONS. Thank you. We all speak for ourselves in America. You know that's just a style, and we are here for as long as you want us. We will answer every question to the best of our ability, and let me first, before we go any further, thank you for coming. I will introduce my colleagues.

On my right is Barber Conable. Mr. Conable is a Member of Congress from the State of New York. He has been in the Congress for 18 years. He is the senior ranking Republican on the Ways and Means Committee and a member of our Subcommittee on Trade. He also serves in other roles in the Congress. He is a distinguished leader of the Republican Party, a counselor to the President. He serves on the Joint Tax Committee, and he served on the Budget Committee of the Congress.

To his right is my colleague Don Pease from Ohio. Mr. Pease is on the Trade Subcommittee of the Ways and Means Committee. He is pretty far up on the Democratic side. Before this, he served on the House Foreign Affairs Committee. He has chaired our American Delegation meeting with the European Parliamentarians. He is from an area that has been highly impacted by unemployment in the steel industry and in the automobile industry.

To my left is Mr. Bill Frenzel from Minnesota. Bill Frenzel is a member of the Ways and Means Committee, a Republican, he is a member of the Budget Committee, he is a member of the House Administration Committee. He is one of the hardest working Members I have with me on the Trade Subcommittee, and he is a very knowledgeable member also.

And to his left is Mr. Frank Guarini. Mr. Guarini is a Democrat from New Jersey. New Jersey, perhaps if you don't know the geography of the United States, is right below the City of New York, and his area has also been highly impacted by unemployment in both the automobile and the steel industries. He was a very distinguished lawyer before he came to Congress. He has served now, I think, in his fifth year or sixth year on the Ways and Means Committee, and we find him a very valuable and intelligent, hard working member.

I have a few things I would like to say to begin with. Two hundred years ago, the founders of the United States of America decided to put the control of external trade in the hands of the United States Congress, not in the hands of the President. Our Constitution also provides that revenue measures, which are trade measures, must originate in the House of Representatives, and by practice they must originate in the Ways and Means Committee, and that's why we're here.

From time to time the Congress, pursuant to legislation that originates in our Committee, delegates to the President and the President, in turn, to the United States Trade Representative, the power to negotiate in the area of external trade.

This is not our first visit to Japan, and I'm sure it will not be our last. We consider our trading partnership with Japan to be of utmost importance, and we respect the great progress that Japan has made as a trading partner, the large volume of trade, the growing economy, and the fact that we generally have a good relationship.

Of course, in any relationship this large we are going to have problems from time to time. We are here to try to solve problems and try to prevent problems. We will spend a total of six days in Japan, some of it here in Tokyo, and some of it will be spent in the southern part of Japan where we will visit the semiconductor industry, the automobile industry, the shipbuilding industry in the area, and we will end our tour in Nagasaki.

As is our standard practice, we always start our visit with the officials of the American Embassy. We receive their briefing. We meet with the American business community in this country and in other countries we visit. We meet with all of the foreign officials that we are able to meet with and arrange appointments with, and we try to meet with the native businessmen, the Japanese businessmen, and talk about our mutual problems.

Now, let me cure some misconceptions. We did not come to Japan to negotiate any automobile agreement. We came to Japan to talk about larger trade problems. However, any time any American and any Japanese get together, we always seem to end up talking about automobiles. So if you have any questions about our views on the automobile agreement, we will be glad to answer them during the discussion period, but we did not come with that mission in mind.

We know that there are many sources of trade friction between the United States and Japan. I think all of you who have covered economic discussions know that we are worried about beef and citrus and agricultural products. We are worried about a whole host of items, including tobacco. You can name the litany as well as I, but we came to talk about two, I think, urgent problems.

The first urgent problem is what we consider to be the difference between the valuation of the yen and the dollar.

Let me make it clear that we do not believe that the Japanese are manipulating the yen or the dollar. We made that perfectly clear to everyone we discussed it with yesterday. I regret that I saw in one morning news report that there was someone who thought that we were saying that the Japanese yen had been manipulated. We do not believe it has been manipulated. We do not make that charge. We want to talk very seriously, though, about the yen-dollar relationship.

There are two things that we have suggested be done. The first is that the leaders from Japan and from the United States and the other industrialized countries put at the top of their agenda when they meet at Williamsburg this problem of the overvalued dollar, the undervalued yen, and the misalignment of other currencies in the trading system. We want a discussion hopefully leading to a solution to that problem from those people.

We have also suggested to the Japanese leaders that they complete the internationalization of the yen so that it can become an international reserve currency like the dollar so that it can be freely traded in the currency markets of the world.

Now, on the second major topic that we talked about, let me make a little opening statement on that. I am a free trader. I have always been one, I expect to live that philosophy all of my life and die with that philosophy. I believe in the General Agreement on Tariffs and Trade, and I would not purposely support any legislation that violated the General Agreement on Tariffs and Trade.

We have suggested to the Japanese officials that perhaps some of their industrial policy of targeting certain industries violates the spirit of the General Agreement on Tariffs and Trade. Now, this is not just a Japanese problem. Other nations may have the same problem, and perhaps we in the United States have that problem, too. But we are all parties to the agreement, the General Agreement on Tariffs and Trade. We have all signed the Subsidy Code, and we believe that it should be vigorously and fairly enforced.

No country need fear any legislation we may develop and eventually pass unless they are subsidizing. If they are subsidizing, it is my personal belief that we should call their hand on it and ask them to stop. We discussed that with the Japanese government so that there would be no misunderstanding about our aims and objectives. We do not have a piece of legislation pending like that now. But we may develop that as we proceed upon our legislative agenda this year.

We will be very careful, very deliberate, and very open in arriving at any decisions to change our law, and any changes that we make will be within the spirit and the letter of the General Agreement on Tariffs and Trade.

I have completed my formal statement, but before we go to questions and answers I would ask my colleagues if you have anything you would like to add at this point.

Mr. FRENZEL. I agree with the Chairman's general statement, but I think we ought to say a little bit more. First, I think that we are generally pleased with the attitude of Prime Minister Nakasone with respect to the liberalization of the Japanese market, and we believe that he seriously intends to go forward with it, and we think it is essential that Japan join the rest of the countries of the free world in opening its market.

Mr. GIBBONS. A very good point, Mr. Frenzel, and I agree with you.

Mr. FRENZEL. In addition, we find Japanese Dietmen, Ministers, and businessmen far more interested in working with us to develop and enhance the open trading system as it applies in Japan, and for that we are grateful, but we have to warn that Japan still has a long way to go. I agree with the Chairman that we should concentrate on the larger issues, and for that reason we have not told the dreadful litany of beef and citrus and tobacco and leather and all of the other items which are an ongoing problem between our countries. But we do sense that there is motion here, and we are pleased with that. Thank you.

Mr. CONABLE. The communication of nations coming from different traditions is imperfect at best. Many of the issues which seem to be problems actually turn out to be only misunderstandings.

In that spirit, I would like to say that we have been very hospitably received here by a very close traditional friend. We are most grateful for the openness of the top members of the Japanese government who spent a good deal of time with us and by the frankness of the exchanges we have had. As legislators we carry a responsibility to communicate this interchange to our colleagues in the Congress and to do what we can to ensure that the relations of our countries in something as critical as trade, which is one of the sinews that holds the world together, be strengthened and improved. We are most grateful for the reception we have had here.

Mr. GIBBONS. And now we'd be most happy to try to answer your questions.

Mr. LESLIE HELM (Business Week). How exactly are you asking the Japanese to internationalize the yen?

Mr. GIBBONS. Well, we want Japan to take off all restraints on borrowing the yen by international borrowers. We want to take off all limits on interest rates. We want to see more import and export transactions settled in yen rather than dollars. There are a whole list of other things that I would be glad to go into. I know at one time, during Japan's post-war development stage, it was necessary to control very closely the yen because Japan had balance of payments problems. But that we do not believe to be a problem now, nor in the foreseeable future, and we believe that making the yen an international currency, allow it to be borrowed, to take off the interest rate restraints, to allow people to come in and invest in Japan and make the kind of normal commercial transactions that perhaps we have in the United States would be enough to internationalize it.

If any of my colleagues want to add anything to my answers I would be happy to have you.

Mr. MAL ADAMS (CBS News). What areas have you found Japan subsidizing the most, and to what extent is this a violation of the spirit of GATT, and what do you recommend to them to do to alter that?

Mr. GIBBONS. First, we made no specific charges that Japan is subsidizing. Japan has the most highly developed and an historic industrial policy of targeting industries for development of any nation, and it has been very successful. Many people come to us. We have been conducting hearings on trade practices in the United States Congress. Many people come to us with the belief that the Japanese system of targeting in itself amounts to a subsidy. In all fairness, the United States is sometimes charged with targeting. They say, you know, we've done it in the aircraft industry for defense purposes, and in the aerospace industry because of defense purposes, but it is the deliberate picking out of a market, marshalling all of the governmental forces around it, nurturing it to development, and then pushing it outside of the country to take over other markets that has an earmark in the eyes of American business people and other business people of being a subsidy.

Now, Japan is not the only nation on earth that does that, but it is time for us as civilized nations to put a halt to it. If it is a violation of our General Agreement on Tariffs and Trade, I believe we ought to live up to it. But we didn't come to make accusations. The list of industries that the Japanese government has targeted are all public records. It is no secret. It is a practice also followed by developing nations, but Japan is no longer a developing nation, and what was perhaps acceptable while Japan was a developing nation is no longer acceptable.

Let me reassure every person in Japan if Japan is not subsidizing, then it should have no fear of any legislation we may develop, but if any other nation is subsidizing then we intend to try to bring it under control within the letter and the spirit of the General Agreement on Tariffs and Trade.

Mr. MIKE THARP (Far Eastern Economic Review). What form might any legislation take that you might develop to penalize, neutralize, or otherwise offset Japanese industrial policies that you feel violate the letter or spirit of GATT?

Mr. GIBBONS. It would be within the countervailing duty of the unfair trade practices as they are defined in the General Agreement on Tariffs and Trade and in our statutes that were developed in acordance with that. For over a hundred years under American law it has been a dutiable offense to levy countervailing duties wherever a bounty or grant was offered by the foreign government to an industry that was exporting into our market, and ever since the General Agreement on Tariffs and Trade has been in existence, that has been one of the cardinal principles of the General Agreement dating from right after World War II. So it would be within that framework, that well-established framework, all nations have those same types of law.

Mr. NAKAO (Mainichi Shimbun). I understood what you have stated on subsidies, but I do not quite understand what you are meaning to say on the target policy. At the summit conference the leading nations of the world agreed to cooperate in the various fields of front-edge technology, and among the seven nations the leaders decided that R&D efforts will be stepped up in a variety of fields with government participation. In your opinion then would that agreement be in contravention to the spirit of the GATT, and if so the United States is already agreed to the setup of cooperation in the front-edge technologies. May I ask why do you find it so offensive.

Mr. GIBBONS. The Japanese government and the American government have exchanged some letters, not binding obligations, about cooperating in the area of technology development. This is only in its infancy. If we move forward on that we do not expect to do it in a manner that violates our obligations to the Europeans or to any other nation on earth. It is mainly to try to resolve the suspicions or the fears that we have of each other in this very tough area. I hope that our negotiators will be able to work out a more complete understanding of this area, but it is only an idea so far. It has never been submitted to the United States Congress. It has never been approved by the Japanese Diet that I know of. It is an idea that negotiators have been talking about, have reduced to writing, and our respective Cabinets have endorsed, but it should not be understood by us or by any other nation on earth that it will be an attempt to try to subsidize our way, the U.S. way or the Japanese way, into the world market in this area of highly sophisticated technology, or to put any nation at a disadvantage. We are trying to cooperate, as I understand it, in an area that we are afraid that more friction will develop.

But, frankly, it has not been thoroughly explored by the Congress. It has not been aired by the Congress. It is something that we have not had a chance to look at very closely, but even if we go ahead with it, and I think we ought to go ahead and look at it seriously because the people that developed it were serious people, but we should never give to each other the signal or to any other nation on earth that we're doing it for the purpose of trying to subsidize our way into their market.

The gentleman is apparently not satisfied with my answer and wants to follow up.

Mr. NAKAO (Mainichi Shimbun). I am not completely satisfied and at the same time I do not fully understand what you have stated. The interpreter seemed to misinterpret part of my question.

I agree with you on the cessation of subsidies, but after you stop paying out subsidies the government intervention or participation in decision making on research and development and investment in targeted industries to revitalize the economy has been agreed on as a desirable measure at the summit meeting last year, and details of this cooperative scheme will be discussed at the summit meeting this year. Therefore, I don't find anything offensive in this scheme.

At the summit meetings it has been recognized that the leading industrialized countries should cooperate in technological fields so that they can reactivate or reinvigorate the stagnant economies.

Therefore, my proposal is to stop paying out subsidies and every nation adopt a targeting policy, and the United States might want to emulate the Japanese MITI in this regard.

You talk about disadvantages caused by this type of operations, but when you are engaged in competition it is inevitable that somebody is placed in a disadvantageous position.

Mr. GIBBONS. I wouldn't presume to tell Japan how to run its internal affairs nor expect Japan to tell us how to run our internal affairs. If Japan is not subsidizing in international trade, then it has no worry from our legislation. If Japan is subsidizing, then that is something that we are going to have to look at.

Now, subsidies take many different forms. The most obvious subsidy of course is just a cash grant. Japan makes those. They're small. There are other ways of subsidizing an industry. One is to exclude from a market its natural competitors. Another is to give it very favorable interest rates on nonrecourse loans. Another is to favor its products in your governmental purchasing practices, and a whole host of other things that you can see being put together. In my opinion that is a subsidy. A subsidy doesn't have to be a direct cash payment.

Now, if we are going to follow the program that you outline, the nation or nations with the greatest amount of resources, the nations with the greatest amount of money, are going to eventually choke off every poor and undeveloped and developing country. That would be chaotic and unfair, and what I seek to build is a fair trading system, fair to the big and the little, the rich and the poor, the developed and the underdeveloped, all within the rule of international law.

Mr. **Kawabata** (Japan Times). It seems to be your contention that a variety of types of subsidies are repudiated and you are going to propose a piece of legislation under which the countervailing duties will be levied as a result of measuring the effects of those subsidies on trade. Now, how do you propose to measure the effectiveness or effects of industrial policy of a nation?

Mr. **Gibbons**. Well, let me say it will be very difficult and we will try to do it in a very deliberate and open manner so that our work can be criticized and perhaps improved upon. One of the purposes of coming to Japan was to keep our largest trading partner informed. I know of the criticism that has been levied against the United States in the past about acting unilaterally and in a surprising manner, and I don't want to foster any of that. Your question is a very good one. It will take a great deal of time and our best efforts, and any suggestions that the trading community would like to make we would be happy to have them, but we have staff already at work on developing some of the criteria and we will air them further in the public hearings that we will have later on this year in Washington.

Mr. **David Lammers** (Associated Press). The Japanese response to American criticism of subsidies on industrial policy has been that Japan is a separate culture, it's a separate system from the United States, and I'll cite three examples. One is that since Japan opened to the West the government has had an integral part in developing the economy, whereas in the United States there is a philosophy that business and government have a different relationship.

Secondly, there is a Japanese idea that suffering must be spread around among the members of the family, so in the declining industries of aluminum and petroluem refining and beef producing and mikan producing, that MITI should, and has a right to, propose cartel legislation which will mitigate the suffering.

The third objection often is that the United States actually subsidizes industries to a greater extent than Japan does through the Defense Department, and particularly they would cite computers and electronics as benefitting more in the United States from government participation that it does in Japan.

I would like your response, please.

Mr. **Gibbons**. As I travel around the world and work in this area, I realize there are many different cultures and we do respond to our challenges in a different manner, and I do not seek to try to change anyone's internal operation, and I don't believe that is a proper role of any government to go around and try to make his neighbor change.

The problem exists when you move outside of your own culture or your own country and through these so-called cultural practices inflict injury upon other people. One of the tests of a countervailing duty is that there must be some injury, and of course that would still be one of the criteria.

We have watched Japanese legislation. We have watched the targeting practices. We have monitored them in an appropriate manner as we can. We have heard allegations about what has been done. We realize that Japan targets not only expanding industries but declining industries and, to the extent that it deprives us of legitimate markets, we are concerned. That is our only concern.

As far as humanitarian relief within a country, every country certainly has a responsibility to do that. So the test would be: Does the action reach outside the boundaries of the country, not just Japan but any country? Does it adversely affect or injure a trading partner within the definitions in the General Agreement on Tariffs and Trade? Those are the tests by which we would try to measure it. In many ways the Japanese system is admirable and certainly well suited and well executed for their own people. It is only when it reaches outside of the area of Japan, impacts either us or other trading partners, depriving us of markets that we, without the benefit of that targeting, would legitimately have a claim to.

I thank each of you for coming. We realize that we are talking about very technical matters, but very serious matters. They are the strands that hold civilization together. We do not want to destroy any of these strands that hold civilized people together. We want to strengthen and improve them. As I said at one time in my remarks, we seek a trading system that is open, free, competitive, that is fair to the rich and the poor, to the big and the little, to the developing and the undeveloped. That's a big order. We look forward to walking ahead hand to hand with Japan.

APPENDIX B: TRANSCRIPT OF PRESS CONFERENCE BY MEMBERS OF THE HOUSE COMMITTEE ON WAYS AND MEANS, NISHITETSU GRAND HOTEL, FUKOUKA, JAPAN, APRIL 1, 1983

Participants: Congressman Sam M. Gibbons, Congressman Donald J. Pease, Congressman Frank J. Guarini, Congressman Barber B. Conable, and Congressman Carroll A. Campbell

Mr. GIBBONS. Good evening, gentlemen. It's very nice to be here. We've met with some of you last night and we are looking forward to not only an interesting evening tonight with you but to tell you something about our visit.

About two hundred years ago the founders of our country placed the responsibility for external trade in the Congress, not in the presidency. So we in the Congress, particularly the Ways and Means Committee, make the trade policy for the United States, the external trade policy. We work with the President and he administers that policy and we have with us here Members of the Committee and I'd like to introduce them now.

On my right is Congressman Barber Conable of the State of New York. On my left is Congressman Carroll Campbell of the State of South Carolina. To his left is Mr. Frank Guarini from the State of New Jersey and on the end is Mr. Don Pease from the State of Ohio. On the front row over here to my left is Mr. Joe Massey. Mr. Massey works in the Executive Office of the President in the Trade Representative's office. And in the rear of the room are some of our professional staff that help us with trade matters.

We began our trip a week ago in Korea. We spent two days in Korea and all the rest of that time other than when we got here last night we have been in Tokyo meeting with your Prime Minister and with his cabinet, with members of the Diet, with American businessmen, and Japanese businessmen and trade associations.

Our purpose is to improve trade, to try to facilitate it, to help it grow. We recognize that the whole world has been through a serious recession and during this serious recession the pressure for protectionism grows. Now we wouldn't be here unless we were asking for something and what we are asking the Japanese government to do is to one, try to strengthen the yen. By that, I mean to correct its imbalance between the actual value of the yen and the value for which it is being traded in the world markets. On the other hand, most people believe that the dollar is too strong and is overvalued in the international trade market and we realize that we have to do some things to correct that too. We suggested that there were perhaps two remedies that should be followed in the immediate future. The first, I think you know there is a summit meeting scheduled for seven industrialized countries on economic policies in the United States, which will take place in Williamsburg. The leaders will meet on economic policy and we asked them to put this currenty matter at the top of their agenda. We put the exchange rates and the currency misalignment as the highest priority to correct because it perhaps is the most important subject that the free world faces. The undervaluation of the yen makes it much more expensive for the Japanese to import materials that they need and it means that the product that they sell in the world market is also valued very cheaply, in effect penalizing the Japanese when they buy foreign products and favoring the sale of their products abroad.

The reverse is true in the United States. Because our currency is overvalued it means that the materials we must buy are very cheap but that the materials we sell are very expensive. And because this problem is so severe, it creates friction and ill will. It creates suspicion and fear. And we want to eliminate all those things.

The second thing that we discussed with your government and with your business people involves the General Agreement on Tariffs and Trade. During the Tokyo round of negotiations that were completed in the late 1970s, all of the nations of the world, particularly the industrialized nations, agreed not to subsidize their exports. This agreement not to subsidize has been rather loosely enforced and because of that, subsidy practices have grown around the world. We wanted to tell your government, as we are telling other governments, that we intend to seriously enforce the agreement not to subsidize.

Now we recognize Kyushu as being the "Silicon Valley" of this side of the Pacific; of Japan. I think you know what I mean when I say Silicon Valley because I assume it's been widely reported in Japan. This is the emerging high-technology, microprocessing area of Japan. It is the place where the growth is coming in this industry. So we wanted to see what was happening here. We visited the Texas Instruments plant over on the eastern shore of Kyushui and we were very impressed with the Texas Instruments operation, the fine plant that they have there, the excellent work force and the whole atmosphere of the community relationship with the plant was good.

We next went to the Kyushu Nissan plant. As you know, trade in automobiles has been one of the most troublesome things we have. The Delegation wanted to see firsthand what was happening at the Nissan plant because this is the location where Nissan is training American auto workers for their new plant in Tennessee. We were very pleased to see their operation, talk with their management and their workers, and I think we're in a better position to understand why the Japanese automotive product is of such high quality, so well-built, so well-designed, and so widely accepted in our market.

We had a fine experience on your transportation system; your great trains. We rode in your fine buses. We looked at the beautiful fields, the fine agriculture you have. We only had one unfortunate experience. That was that as you know, it rained very heavily in the southern part of Kyushu and the train system on the eastern side of the island is not functioning on schedule, and so we were a little late getting home, but it gave us a greater opportunity to see the countryside and to observe some of the small towns and farms on that part of Kyushu.

And now we are about ready for your questions, but I'll tell you first what our schedule is for the rest of our time here in Kyushu. Tomorrow we will be going north, eventually ending up in Nagasaki late in the evening. We will spend the remainder of our time in Nagasaki visiting shipyards and industrial areas and will depart for the United States Monday evening.

Mr. Koga (Yomiuri Shimbun). In fact, we have come prepared with a lot of questions to ask you, but most of these questions have already been answered by you in your initial presentation, so maybe we don't have any substantive questions, but we'd like to ask you some questions anyway. Despite the fact that you covered most of the major questions we had, I would appreciate you going into a little more detail about what motivated you to choose Kyushu for a special visit.

Mr. Gibbons. Well, we're trying to get to know the Japanese people better; to learn about their society and their industry. Most of the Delegation has visited Japan before, but we usually get caught in the Tokyo area because that's the seat of the government that we deal with and we realize from our own experience in Washington and other large population centers like that, that if you only see that part of a country, you don't know what the rest of the country is like, so we wanted to come to Kyushu. We'd heard that it was a part of Japan that was moving forward very rapidly and that's our purpose in coming here.

Mr. Conable. We were very favorably impressed with the reception we received last night.

Mr. Gibbons. Yes.

Mr. Conable. And felt that the spirit of that reception almost alone justified the difficulty of coming to Kyushu. We also were very cordially received by the business enterprises we visited today. They extended themselves to explain their operations. This was of particular interest to us at the Nissan plant in Kanda because some of their truck operation is being transferred to Tennessee in the United States. They are shifting their operations somewhat, and we were interested to see. One of the best ways to find out their plans for the United States is to understand their operation here. So it was a valuable and an instructive day for us and it was made more pleasant by the warm reception we received last night.

Mr. Koga (Yomiuri Shimbun). In about a week, Kyushu is sending its economic mission to the United States for a series of seminars in America. The major purpose of this mission is to try to attract American investment to Kyushu. In fact, Texas Instruments, and NRC and Fairchild have operations in Kyushu already. The Kyushu industrial or business community would like to see more American investment or factories being attracted to Kyushu. From your view, what do you think of this effort on the part of the Japanese and particularly the Kyushu industrial or business community? That is, to try to attract American investment or operations in Kyushu.

Mr. GIBBONS. Well, I realize there may be some Americans that think we should not invest in foreign countries, but I think that once you analyze that, you realize that that's not a practical solution to the future. So, I think that there should be a free flow of capital as well as a free flow of goods and that our country and your country should reduce all of our barriers, our trade barriers and our investment barriers. Actually, that is one of the things that we suggested to the Prime Minister. One of the things that would be helpful would be for the internationalization of the yen to be completed. That means taking off restraints on interest, restraints on buying and selling debt in the yen. So I believe in this investment. It promotes better production. It promotes greater wealth and it helps the development of both of our countries.

Mr. CONABLE. I think it is desirable that this mission is going to Kyushu to the United States. We want to sell you goods and you want to sell us goods and we must both be willing to do what is necessary to demonstrate not just the value of your goods but our desire to be of service to each other. Japan has not always welcomed American investment and recently there has been considerable liberalization. That is desirable, but many Americans still believe that their enterprises are not wanted here. So for your mission to go from Kyushu to spread the welcome mat before American investors is desirable. Just as we believe it is desirable for your industry also to invest in America as is the Nissan Motor Company. This type of interdependence; this type of exchange of capital and goods is what makes ultimately for a strong and a peaceful world in which everyone can prosper.

Mr. MASSEY. Mr. Chairman, can I add a word on that? Last month Ambassador Brock was here and one of the biggest points that he made during his trip to Japan was to stress the value and desirability of increasing our two-way direct investment. We trade about $60 billion a year, but the total accumulated direct investment between our two countries is still very small by comparison to that, only about less than $14 billion and if we're going to have a stake in one another's economies we want to really have a kind of dependent partnership; as Japan and the United States ought to have as two of the leading trading countries in the world. Then you've got to have this kind of increased direct participation to cement our partnership. That's Ambassador Brock's message and I think when we go and look at Texas Instruments in Kyushu and then Nissan in Tennessee we see the right kind of spirit and the right kind of approach to that partnership.

Mr. GIBBONS. That was Dr. Joe Massey. He works with the United States Trade Representative's office in the Executive Office of the President.

Mr. TABE (Asahi Shimbun). With reference to the summit meeting in Williamsburg, you indicated that the evaluation of currencies should be discussed. Instead of establishing a fixed rate system might not it be better to use a system whereby there are fluctuations, but within a given range, somewhat like the system being used in the EC countries? And as you have indicated the Japanese yen should be more highly evaluated and many Japanese people are afraid that at that meeting the Japanese yen will be made much stronger. What are the prospects for this possibility?

Mr. GIBBONS. Well, one of the problems that the Japanese yen has had is that it has moved up and down very rapidly. It was as high last November as almost 280 yen to the dollar. It got down to around 130 yen to a dollar a little earlier this month, 230, 230 excuse me, 230. And now it's up to almost 138, 139. I haven't checked it. 238. I'm losing 100 yen there, somewhere. [Laugher] That makes it as Japanese businessmen have told us very difficult for them to do business worldwide. That's not good for Japan. It's not good for us. It causes problems. Now, we know that the Japanese yen is not being manipulated by the Japanese government or by any Japanese investors. We have investigated that some time ago. We know that your country has been playing the game of currency honestly and fairly, and frankly, I don't think anybody knows a perfect answer to the problem of currency exchange rates. It is our belief that the Japanese yen would be stabilized better if it were allowed to become an international currency used as the dollar is used; to settle accounts; to be held in reserve; to have no interest rate ceiling placed on it; to be freely available for borrowing purposes outside of the country as well as inside. These are some rather substantial changes for the Japanese currency, but we think that that would stabilize it and perhaps improve its value in the market.

Thank you very much. Come see us again.

APPENDIX C: "CONGRESS MAY INTRODUCE BILL TO PUNISH INDUSTRIAL 'TARGETING,'" THE JAPAN TIMES, MARCH 31, 1983, PAGE 1

CONGRESS MAY INTRODUCE BILL TO PUNISH INDUSTRIAL "TARGETING"

The U.S. Congress may introduce legislation to penalize countries that have unfair industrial "targeting" and subsidize exports by slapping on countervailing duties, Sam M. Gibbons, chairman of the trade subcommittee of the U.S. House Ways and Means Committee, warned in Tokyo Wednesday.

Gibbons said he and other congressmen have suggested to Japanese officials that some of Japan's targeting policies violate the General Agreement on Tariffs and Trade (GATT).

At a news conference at the U.S. Embassy, Gibbons said such legislation would be "within the countervailing duty" against unfair trade practices as defined in GATT and in U.S. statutes.

According to Gibbons, not only cash grants to industries but also very low interest loans to industries, favoring domestic industries' products and services in government purchases and excluding natural competitors from the market constitute subsidies.

He gave his definition of targeting practices in industrial policies: "It is the deliberate picking up of a market, marshalling all of the government forces around it, nurturing it to development and then pushing it outside the country to take over other markets."

He said, "That, in the eyes of American business people and business people of other countries, is a subsidy."

Gibbons admitted that the U.S. has done targeting in the aircraft and aerospace industries for defense purposes.

But he went on: "The list of industries that the Japanese government has targeted are all on the public record. It is not secret. It is a practice also followed by developing nations. But Japan is no longer a developing nation. And what was perhaps acceptable while Japan was a developing nation is no longer acceptable."

Asked how one can measure the effect of any country's industrial policies on international trade Gibbons said, "It would be very difficult."

But he added: "We have staff already at work developing some of the criteria (to measure the effect)."

GROUNDLESS ALLEGATION

International Trade and Industry Minister Sadanori Yamanaka Wednesday rejected as groundless an allegation by a group of visiting U.S. congressmen that the Japanese government is protecting specific industries by subsidizing them, government officials said.

Yamanaka told the U.S. lawmakers, including Rep. Sam M. Gibbons, that the government does not subsidize industries when they called on Japan to stop subsidizing them.

Appendix D: Selected Articles From the Japanese Language Press

(Translations courtesy of the Office of the U.S. Trade Representative)

1. Asahi Shimbun, March 30, 1983, page 9

Dissatisfaction With the Weak Yen Expressed to Prime Minister—Chairman of U.S. House of Representatives Trade Subcommittee

A group of six members of the Trade Subcommittee of the Ways and Means Committee of the U.S. House of Representatives, including Subcommittee Chairman Gibbons, called on Prime Minister Nakasone and met with him for about forty minutes on the afternoon of the 29th. At the meeting the group expressed its dissatisfaction about the weakness of the yen, an issue that has become the focal point of U.S.-Japan trade frictions, and about Japan's industrial policy of depending on subsidies (targeting).

On the weakness of the yen, Chairman Gibbons offered criticism, saying that because of numerous restrictions on yen transactions in the Tokyo exchange market, the yen is unable to play a role as an international currency, and (thus) fails to appreciate even though it is capable of appreciating.

In response, Prime Minister Nakasone countered that the legal restrictions on finance (in Japan) were on a par with those in the U.S. and Europe, and explained that a huge number of government bonds were outstanding and that this was putting pressure on the yen rate.

On the second point, criticism of Japan's industrial policies, which has increasingly become an issue in the U.S., Chairman Gibbons pointed to a rising atmosphere in the U.S. calling for legislation for the purpose of taking measures, that would be consistent with the rules of the GATT, to counter Japan's having used government subsidies to promote industries which then penetrated the U.S. market. As a result, U.S. television (manufacturers) and part of the electronics (industry) received severe blows.

Prime Minister Nakasone stated that (the government) was not providing subsidies to the television and electronics (industries) and that (their success) depended totally on the efforts of the firms themselves and was unrelated to industrial policy. He countered that U.S. government funds are invested in the development of military and space technology and that all industries receive technological benefits as a by-product of this (investment).

The group will be in Japan until 4 April to study the current status of high technology in the country.

2. Mainichi Shimbun, March 30, 1983, page 9

Criticizes Japan's "Industrial Assistance Policy"—U.S. Congressional Group Confers With Prime Minister—Damages the U.S. Marketplace—Complains That Weakening of the Yen Is a "Guided Policy"

A U.S. Congressional group, including Chairman Gibbons of the Trade Subcommittee of the Ways and Means Committee of the House of Representatives, and others conferred on the afternoon of the 29th with Prime Minister Nakasone, Chief Cabinet Secretary Gotoda, Foreign Minister Abe and others, exchanging views on such issues as the weakening of the yen and Japan's industrial policy. In the meetings Chairman Gibbons and the others sharply criticized Japan's priority industrial policies, on the grounds that "they have developed powerful industries through subsidies, etc., and are damaging the U.S. marketplace." They emphasized the interpretation that the weakening of the yen should draw attention to the fact that the yen would appreciate if its role as an international currency was given proper consideration. Today's meeting took place in the context of the Foreign Ministry's placing importance on the visit inasmuch as Chairman Gibbons is a noted free trader knowledgeable about Japan as well as a member of the Trade Subcommittee of the House Ways and Means Committee that has been deliberating on the local content legislation strongly opposed by Japan.

In the day's series of meetings the group exchanged views over a broad spectrum of issues with focal points being aspects of the contemporary Japanese economy such as the weak yen, industrial policy, and the system of standards and certification. Specifically, first, they sharply criticized Japan's priority industrial policies (targeting), (criticism of which) is mounting in the U.S., to the effect that "as can be seen in televisions and electronics, Japan develops powerful industries by nurturing them with subsidies, etc. These industries then disrupt the U.S. marketplace and damage the U.S. industry." At the same time, they warned: "If things stay as they are now, we will end up shutting Japanese firms out of the U.S. market by drafting GATT-consistent laws to counter these Japanese (policies)."

Further, they criticized Japan's foreign exchange policies, saying: "As a result of the various regulations governing international transactions involving the yen, the yen is not performing the role of an international currency. If the yen were to perform that role, it should strengthen in value." And in the meeting with Chief Cabinet Secretary Gotoda there was criticism of the Japanese government for inducing the weakening of the yen.

Prime Minister Nakasone and others countered these criticisms by pointing out that: (1) The American side criticizes Japan's industrial policies but subsidies are given to only some industries, and on the question (of subsidies), as is evident in defense industries, huge investments of (U.S.) government funds are made. It is a matter of degree. (2) The management of the currency exchange market is as liberal as in foreign countries.

3. Nihon Keizai Shimbun, March 30, 1983, page 2

SHARP CRITICISM OF JAPAN'S INDUSTRIAL POLICY—U.S. CONGRESSIONAL GROUP TO THE PRIME MINISTER

A U.S. Congressional group led by Chairman Gibbons of the Trade Subcommittee of the Ways and Means Committee of the House of Representatives called on Prime Minister Nakasone at the Prime Minister's residence on the afternoon of the 29th, and exchanged views on the issue of U.S.-Japan economic friction. During the visit, Chairman Gibbons sharply criticized Japan's traditional industrial policy, saying that "a more fundamental cause of the trade imbalance is to be found in the fact that Japan promotes industries using subsidies as levers. As long as this situation continues, the United States will have to counter it." He went on to identify the weak yen as another cause of the trade imbalance, stating that "strengthening of the yen should be induced by internationalizing the yen."

In addition, in the meeting with Foreign Minister Abe he said: (1) Japan's voluntary restraint on auto exports to the U.S. should be extended to a fourth year (after April 1984); (2) that the U.S. would like to see further simplification of the standards and certification procedures for automobiles.

4. Yomiuri Shimbun, March 30, 1983, page 7

U.S. CONGRESSIONAL GROUP EXPRESSES CONCERN OVER SUBSIDIES POLICY

The U.S. Congressional mission to Japan of Chairman Gibbons of the Trade Subcommittee of the Ways and Means Committee of the House of Representatives, paid separate visits on the 29th to Prime Minister Nakasone, Foreign Minister Abe, and Chief Cabinet Secretary Gotoda.

Chairman Gibbons and the others emphasized that: (1) Japan promotes industries by means of government subsidies and these industries paticipate in the U.S. market causing damage. So there are strong voices calling upon the U.S. to draft laws to counter Japan's subsidies policies. (2) The recent revisions of Japan's standards and certification procedures were to be praised, but he would like, for example, Japan to accept self-certification like that of the U.S. for automobile imports. (3) Since the Japanese economy is so large, Japan should carry out its international responsibilities such as improving the currently weak yen by having it serve as an international currency.

Prime Minister Nakasone countered by saying that, while he was aware of U.S. concern about our country's subsidies policy, "in America, too, subsidies to important industries are necessary, such as the vast government subsidies in space industries. Let us resolve this issue by discussions on the basis of having made a specific, objective study of Japan's policies."

5. Asahi Shimbun, April 2, 1983 page 8

PRAISES KYUSHU'S HIGH TECHNOLOGY—CHAIRMAN GIBBONS OF THE U.S. TRADE SUBCOMMITTEE—WELCOMES SEMINARS TO INVITE U.S. FIRMS

Chairman Gibbons of the Trade Subcommittee of the Ways and Means Committee of the U.S. House of Repesentatives, which is visiting Kyushu, held a press conference on the evening of the first at a Fukuoka hotel. Referring to their inspection of the Hinode plant of Texas Instruments in Oita Prefecture, ect., he praised the high level of technology, stating that "it was clear to us that high technology on Kyushu, which is called Silicon Island, is being well nurtured."

Mr. Gibbons went onto say "I am concerned by the spread of protectionism" in international trade and emphasized that we should seek means to increase the mutual economic exchange between the U.S. and Japan. In this regard he noted that the eight prefectures of Kyushu and Okinawa were to hold seminars in the U.S. beginning on the fourth (of April) to invite U.S. firms (to locate plants, ect. in those prefectures). "Kyushu and the United States," he said, "will be linked together by the laying of the rails of mutual exchange. We welcome this."

On other topics, he touched on the issue of Japan's currency, manifesting concern over the weakness of the yen in his remark that "the yen market does not adequately reflect the strength of the yen." It has come to light that overtures have been made to the Japanese government to make the currency issue a major topic of discussion at the summit meeting of the industrial nations to be held in the U.S. this summer.